



Australian Government

Department of Health and Ageing

Outline of Presentation

What do we do?

Why do we do it?

What are the schemes?

How have they worked?

Where to from here?

Roles of Government Agencies

Department of Health and Ageing

- Policy development – keep doctors practicing
- Communication and liaison with profession and industry
- Coordinating legislation and regulation
- Providing advice to Minister for Health and Government

Role of Medicare Australia

- Administers Medicare, the Pharmaceutical Benefits Scheme and other health programs
- Responsible for all medical indemnity program delivery
- Frequent direct contact with insurers
- Provides feedback to Department on implementation issues

Role of Treasury

- Policy development – keep insurance markets operating efficiently
- Policy carriage for APRA and ACCC
- Providing advice to Treasurer and Assistant Treasurer

Role of Australian Government Actuary

- Policy advice – estimating MI liabilities
- Annual IBNR Scheme assessment
- Annual ROCS report

Background to Australian Government involvement

- Tito Report in mid 1990s
- Escalation in claims costs and hence premiums through late 1990s
- Claims incurred > claims made
- Provisional liquidation of UMP/AMIL in 2002

Why was the Government involved?

Andrew Denton (to Alan Bond): *Mmm. There's a saying that if you owe the bank a thousand, it's your problem. If you owe the bank a million, it's the bank's problem. If you owe \$10 billion, whose problem is that?*



Government policy and aims

- Regulate the industry
- Solve the IBNR problem
- Reduce exposure to high risks
- Address major affordability issues
- Extend the guarantee to keep UMP trading

Government strategies

- Minimal Intervention
- Support for existing structure

Policy response

- Assisting UMP
- Taking over unfunded IBNRs
- Making provisions for large claims
- Helping doctors paying premiums (high risk specialities)

Incurred But Not Reported (IBNR) Scheme

- Established under the *Medical Indemnity Act 2002*
- Only UMP benefited (2005 UMP's IBNR net exposure is \$205m, down from \$485m in 2003)
- Government funds UMP IBNRs as they emerge

Paying IBNR claims

- UMP remains responsible for claims management (and for the claims liability)
- But UMP is reimbursed for IBNR claims by the Medicare Australia



Paying for the IBNR scheme

- Government is now recovering about a quarter of the cost of the scheme from UMP members at a particular point
- Was called the IBNR contribution and covered all costs
- Now called the **UMP Support Payment**
- This is a tax – it must be paid
- Penalties apply if it isn't
- 2007-08 is the last year of UMP SPs

Competitive Neutrality

- 2005 Rogers Report Findings
- IBNR Scheme created competitive advantage
- Legislation to tax beneficiaries of IBNR Scheme (AMIL)

High Cost Claims Scheme (HCCS)

- Operates under the *Medical Indemnity Act 2002*
- Insurers can claim from the Government 50% of all claims over a threshold
- Originally threshold \$2 million
- Now \$300,000

Background for the HCCS

- Mid-late 1990s increase in the number and size of large (high cost) claims
- Cost of re-insurance increased as international insurance markets experience a downturn
- Commercial insurers reluctant to enter MI market because of uncertainty around large claims

Rationale for HCCS (cont)

HCCS intended to

- reduce uncertainty
- reduce the cost of reinsurance
- reduce upward pressure on doctors' premiums

Exceptional Claims Scheme (ECS)



(Formerly the Blue Sky scheme)

Exceptional Claims Scheme (ECS)

- Arose because contracts of insurance have a maximum limit
- Doctors concerned about their personal liability for claims over that limit
- Despite the fact the largest claim ever is about 60% of the current limit

ECS (cont)

- By agreeing to fund 100% of claims over \$20m the Government addressed a major concern of medical profession at a little cost to taxpayers
- Anyone with an ECS claim can be assured of personal service from Medicare Australia

Premium Support Scheme (PSS)

Applies to all doctors, regardless of speciality

Replaces Medical Indemnity Subsidy Scheme

Simpler for doctors to participate – no Government application forms

PSS (continued)

In 2006-07, practitioners received **\$31.5 million** in premium subsidies

Since inception, PSS has paid out over **\$75 million**

Run-Off Cover Scheme (ROCS)

- Why the government established ROCS
- Eligibility
- What indemnity insurers must do
- How insurers are reimbursed by the government
- How ROCS is funded
- “Money back guarantee”

Why the Government established ROCS

- Industry wide move from claims-incurred to claims-made cover
- Doctors need to pay for run-off cover when they retire and are no longer earning an income from medical practice
- Recommendation of Medical Indemnity Policy Review Panel (December 2003)
- ROCS legislation developed 2004



ROCS architecture

- Insurers are required to offer eligible doctors what is effectively a contract of insurance and manage and pay claims
- The Government then reimburses insurers for the costs

What indemnity insurers must do

- Grant indemnity to eligible doctors
- Notify eligible doctors of ROCS terms and conditions
- Notify Medicare Australia of eligible doctors
- Manage any claims/incidents notified on behalf of eligible doctors

How insurers are reimbursed by the government

- Protocol covering insurer's costs in administering ROCS
- Apply to Medicare Australia for reimbursement of costs incurred in defending individual ROCS claims/incidents

How ROCS is funded

“Start-up” liability (costs of claims from doctors who became eligible on/ before 1 July 2004)

– funded by Government

Government’s admin costs – funded by Government

Ongoing liability (costs of claims from doctors who became eligible after 1 July 2004) – funded by ROCS Support Payment (a tax on insurers)

Insurers’ admin costs - ROCS Support Payment

ROCS Support Payment

- A proportion of each insurer's premium income
- Paid to Medicare Australia each year by insurers
- Shown on doctors' annual premium notices



“Money back guarantee”



Just in case ROCS were ever terminated

Doctors not yet eligible could be compensated

**Requires extensive record keeping by insurers
and Medicare Australia**

Achievements

2007 Medical Indemnity Review Findings

- Overall medical indemnity in good shape
- Continuing stabilisation of the industry; no need for substantial changes
- On-going need to monitor the implementation of the program and new developments in tort reforms



Future Vision for Medical Indemnity Policy

Take Home Message



“It’s a dangerous business going out your door....” Bilbo Baggins & Senator Coonan