



Understanding Medical and Health Insurance / Takaful

Part 3: MHI Premiums Not Spared from Rising Healthcare Costs

There is growing awareness around the world that Medical and Health Insurance and Takaful (MHIT) is a viable option to access healthcare services that are increasingly expensive, despite the fact that MHIT premium is not spared from the effects of medical inflation.

While public sector healthcare provision in Malaysia, on the other hand, is still subsidised and in the 2015 National Budget, RM23.3 billion has been allocated for this sector, there are growing fears that subsidising healthcare in tandem with medical inflation would no longer be sustainable.

Regardless, healthcare costs continue to rise unabated for a number of reasons:

Demands for Better Health Care Services

A more affluent nation has generated a stronger demand for better healthcare services and medicinal products, resulting in higher healthcare costs.

An aging population and a higher prevalence of chronic and lifestyle diseases such as hypertension, diabetes and obesity are other factors contributing to the increase in healthcare costs.

Malaysia's Statistics Department has revealed that between 2010 and 2040, the number of Malaysians aged 65 years and above is projected to increase more than three folds and in 2021, the number of Malaysians aged 65 years and over would reach 7.1 per cent of total population.

Statistics from the Ministry of Health, show an increase in non-communicable diseases, with cases of hypertension up by 43 per cent, diabetes up by 88 per cent and obesity 250 per cent higher in 2012 compared with 2002.

Such demographic and changing health patterns require long-term and expensive healthcare support that may not be sustainable on public funding.

Hike In Medical Fees

The medical fee schedule was first regulated in 2006 and the latest rates are the first changes made as part of the Private Hospitals and Other Private Healthcare Facilities Regulations 2006.

Technological Advances in Healthcare

Higher medical fees are also due to an increase utilisation of advanced health technologies in medical facilities. For example, we have evolved from X-rays to CT scans and now to MRIs. With medical innovation, consumers have a wider choice of diagnostic treatments.

MHIT - an attractive option



In the light of these developments and despite the fact that the fee or premium of MHIT is not spared from the effects of escalating healthcare costs, MHIT is still an attractive option to buffer consumers against medical inflation.

That is because MHIT adopts the principle of risk sharing whereby policyholders individually contribute via their premiums to a pool of funds. For instance, when a policyholder is diagnosed with an illness or sustains an injury that requires hospitalisation, his insurer will use the funds from this pool to cover his medical expenses.

The premium for a policyholder is calculated based on actuarial principles (using utilisation and claims amount statistics). Thus premium amounts are dependent on the following:

- **Age of the insured** - Older people tend to suffer from more illnesses. Thus premiums increase with age to account for the higher utilisation and claims amount at older ages.
- **Types of medical care plan** – there is a wide range of medical care plans to meet the needs of a diversified community from basic to more comprehensive offerings. An increase in medical care costs would impact the premiums of these plans to different extents depending on benefit types and limits of each plan type. Reimbursement type medical plans are more susceptible to inflationary cost as versus fixed hospital income products. For example if cost of treatment of a specific condition currently is RM C, you could expect after one year, treatment for that same condition to cost RM (C X 1.15) if medical inflation is at 15% per annum.
- **Geographical coverage of the plan**- MHIT policies have 'geographic limits' so policyholder will not be reimbursed for non-emergency medical treatment received outside the areas as specified in the insurance cover. Most policies restrict cover to treatment within Malaysia. Policies that allow for overseas treatment will have higher premiums as cost of medical treatment in some other countries can be much higher than in Malaysia.
- **Experience of Utilisation and Claims Paid Out**– It is highly important that you do not wait until you got sick or needed medical care to purchase a MHIT product. Waiting to obtain health insurance or takaful coverage until one needs coverage then creates a pool of insureds with "high utilisation," which then increases the premiums that insurance companies must charge in order to pay for the high claims incurred. Hence, it is important for you to start your medical and health insurance protection early in order for you to obtain a MHIT that meets your needs and fits your long-term budget (taking into account drop in income after retirement and amount of savings you need to accumulate).

Moving forward

With the costs of medical and health insurance on the rise and with the lack of other alternatives to cover escalating medical charges, MHIT may still be the best option to help consumers protect their savings during a medical crisis.



Insurers and takaful providers are not only committed to educating the public on the importance of MHIT, but they are also working closely with the healthcare providers to ensure fair pricing on the treatments provided.

There are many MHIT options in Malaysia and consumers are certainly spoilt for choice. However, discernment is required when selecting the MHIT of choice that would both meets the individual's needs and budget. Always make sure you are clear about the terms and conditions of the policy before you buy it.

THE END

This article concludes a three-part series brought to you by Persatuan Insurans Am Malaysia (PIAM), Life Insurance Association of Malaysia and the Malaysian Takaful Association. This series aim to offer a better understanding of MHIT and what it offers, the dos and don'ts when making a medical claim and how the high costs of healthcare services have impacted on MHIT premiums/contributions.

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ABOUT PERSATUAN INSURANS AM MALAYSIA (PIAM)

PIAM is the national trade association of all licensed direct and reinsurance companies for general insurance in Malaysia. Currently, PIAM has 28 member companies. More information on PIAM can be obtained from its Web site: www.piam.org.my.

ABOUT LIFE INSURANCE ASSOCIATION OF MALAYSIA (LIAM)

LIAM is a trade association registered under the Societies Act 1996. LIAM has a total of 16 members, of which 14 are life insurance companies and 2 life reinsurance companies. More information on LIAM can be obtained at www.liam.org.my.

ABOUT MALAYSIAN TAKAFUL ASSOCIATION (MTA)

MTA is a trade association for the Takaful industry in Malaysia. MTA has a total of 15 members and is dedicated in promoting the interest of its members and to supervise the exercise of self-regulation within the Takaful industry. More information on MTA can be obtained at www.malysiantakaful.com.my.

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