DISCOUNTING THE PAST

Why it's time to rethink the NCD

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The no-claims discount (NCD) is becoming ubiquitous in the private medical insurance (PMI) market, with nearly all of the major providers now offering NCD-based policies. Despite this, the traditional NCD — a concept borrowed from motor insurance — has never been a great fit for PMI.

Unlike a car insurance claim, where the extent of the loss is usually known at the outset, medical insurance claims are characterised by uncertainty in the early stages. Thus, a PMI beneficiary may choose to self-finance an initial consultation and diagnostic test to protect their NCD, only to lose it anyway when an operation is required. Most insurers will settle eligible claims retrospectively, but many consumers will be unaware of this.

Fundamentally, the concept of bonus-malus is a fair one. After all, why should those who rarely claim pay the same as those who claim heavily? Problems arise, though, when members are penalised disproportionately following small claims. With a traditional NCD, a member will lose the same discount for claiming £100 as they would for claiming £100,000. In our industry, where significant year-on-year increases are the norm, any loss of discount is exacerbated by the underlying increase for age and medical inflation.

INNOVATION

In recent years, some of the more forward-thinking insurers have made an effort to address these problems. PruHealth, as part of its original Vitality concept, attempted to make any loss of discount directly proportionate to claims made. This only worked up to a point, though: as soon as the member had claimed more than their base premium, they not only lost all of their discount but also suffered a 15% loading. These penalties were compounded by the underlying increase, such that annual increases approaching 70% were not uncommon. No wonder, then, that the Vitality scheme was overhauled.

AXA PPP healthcare is to be commended for two developments: apportioning any loss or gain of discount to the member in question (rather than across the whole registration) and allowing policyholders to pay back their claims within 30 days of renewal to protect their NCD. I would like to see this lead followed throughout the industry, although I concede that it matters more with AXA PPP because their NCD is one of the most punitive in the market, with members losing up to 27.5% of their discount for a single claim.

Simplyhealth's "low-claims discount" is a step in the right direction. Personal Health members gain an additional 5% discount (up to a maximum of 50%) for every year that their claims are less than 33% of their annual premium. The discount is eroded by 10% for members who claim more than 66% of their premium, and left unchanged for those who fall between the two stalls.

> ***"The traditional no-claims discount has never been a great fit for private medical insurance"***

CLIENT RETENTION

The problem with both the PruHealth and Simplyhealth models is that they are based on percentages, rather than absolute monetary values. Unlike insurers, consumers do not think in terms of loss ratios when assessing the reasonableness of their claims. In my experience, clients do not usually begrudge their insurer the opportunity to re-coup some of their outlay following a year of high claims, but they feel justifiably aggrieved when they are disproportionately penalised for small claims, and this can present a problem for client retention.

It is convenient to believe that the NCD is an efficient mechanism by which to control risk, working on the assumption that only high-claiming members will be deterred from renewing. Under both the Simplyhealth and erstwhile PruHealth models, though, younger members are unduly penalised because their premiums are so low. For a client paying £40 a month, a single consultation and a CT scan will result in a loss ratio exceeding 100%, thus triggering the aforementioned penalties.

Disproportionate increases following modest claims can leave clients feeling disillusioned with PMI and questioning its value. Some members will cancel their policies following a claims-related increase when they might otherwise have gone on to become profitable for the insurer. For the intermediary, these scenarios are invariably frustrating, because they are constrained to offering downgrade options or a newly underwritten policy with an alternative provider. Options for a CPME transfer will be severely limited, because the client would have received treatment in the past twelve months.

THE GRADUATED NCD

I would welcome a more sophisticated approach to the no-claims discount that better reflects the complexities of PMI. One suggestion would be for a graduated NCD, so that the loss of discount bears some relation to the extent of treatment. For example, a member might lose 5% of discount for claims up to £500, 10% for claims between £500 and £1,000, 15% for claims between £1,000 and £5,000 and 20% for claims over £5,000.

I acknowledge that this would encourage members to claim, thus undermining the phenomenon of "bonus hunger" that is so central to the concept of the NCD. A graduated NCD would, though, represent a more progressive approach to claim management and would also benefit the industry more broadly by promoting consumer confidence and encouraging client retention.

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