



Southern Cross
Health Society

Overseas Treatment Investigation

Summary of the Report to the Board of the Southern Cross Medical Care Society

August 2011

Summary report contents

Due to the commercially sensitive and/or commercially valuable nature of some of the information contained in the full Overseas Treatment Investigation Report to the Society's Board, this publicly-available Summary Report does not include the detailed findings, appendices or index of reference material.

- 1.0 Executive summary
- 2.0 Investigation overview
 - 2.1 Appendix (Terms of Reference)
- 3.0 Provision options
 - 3.1 Objectives
 - 3.2 Methods
 - 3.3 Findings (not available in this Summary Report)
 - 3.4 Conclusions
 - 3.5 Appendices (not available in this Summary Report)
- 4.0 Protection of members
 - 4.1 Objectives
 - 4.2 Methods
 - 4.3 Findings (not available in this Summary Report)
 - 4.4 Conclusions
 - 4.5 Appendices (not available in this Summary Report)
- 5.0 Member appeal
 - 5.1 Objectives
 - 5.2 Methods
 - 5.3 Findings (not available in this Summary Report)
 - 5.4 Conclusions
 - 5.5 Appendices (not available in this Summary Report)
- 6.0 Insurance options
 - 6.1 Objectives
 - 6.2 Methods
 - 6.3 Findings (not available in this Summary Report)
 - 6.4 Conclusions
 - 6.5 Appendices (not available in this Summary Report)
- 7.0 Conclusion
- 8.0 External project assessment (Health Partners Consulting Group Limited)
- 9.0 Index of reference material (not available in this Summary Report)

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1.0 Executive summary

The Overseas Treatment Investigation has found that enabling members to access cheaper (but still high quality) treatment options overseas will not have a material impact on the Society's claims costs or members' premium levels. It is also unlikely to affect the competitive dynamic in New Zealand surgical markets, especially in relation to procedures that typically cost less than \$20,000.

The Investigation Team reached this conclusion after assessing the best available information regarding overseas treatment in four overlapping work streams from April to July 2011. The key findings in each stream were:

Provision options

- Four countries were identified as having the potential to yield claims cost savings on a per-procedure basis. India appeared to offer the lowest prices across a range of procedures. The others were Thailand, Malaysia and Singapore.
- Each of these destinations actively promotes inbound medical tourism for elective surgery and has a good stock of hospitals that meet international quality standards, as assessed by US-based Joint Commission International (JCI).

Protection of members

- Numerous real or perceived risks / issues associated with overseas treatment were identified. These included risks / issues associated with treatment provision, long distance travel, continuity of care and ethics.
- Many of these risks could be mitigated by various means (e.g. using only JCI-accredited hospitals, paying for travelling companions etc) but mitigation measures typically erode claims cost savings.
- While the American Medical Association published guidelines in 2008 to define ethical approaches to medical travel, the Medical Council of New Zealand has not established a position on this subject at this time because of the low incidence of New Zealanders seeking medical treatment offshore.

Member appeal

- A Southern Cross member survey suggests that a minority of members would consider overseas treatment if they required major surgery. Overseas research and empirical data suggests that – even with financial incentives - the number of members who would actually engage in overseas treatment would be substantially smaller again.
- The country most likely to yield per-procedure savings – India – was the destination that members were least comfortable with. Members perceive that the quality of services in India and Thailand would be of a lower quality than they would receive in New Zealand.

Insurance options

- International literature demonstrates that US insurers' attempts to harness overseas treatment savings in recent years have generally failed because of minimal take-up by insured persons.
- Even if Southern Cross members were to utilise overseas treatment options in significant numbers, the impact on the Society's overall claims costs will be minimal. The primary reason for this is that around 98% of surgical procedures funded by the Society, representing about three quarters of the money paid by the Society for surgical claims, sit below the cost threshold at which overseas provision is financially viable.
- There's evidence that domestic medical travel (i.e. travelling intra or inter state to access lower cost services) may be emerging as a more palatable option for Americans. The idea of facilitating inter/intra city movement of members for treatment is one that is already under consideration within the Society: the member survey undertaken for this investigation suggests a willingness among members to consider domestic medical travel.

2.0 Investigation overview

The Overseas Treatment Investigation was instigated following the passing of a resolution at the Southern Cross Medical Care Society's 2010 AGM: "to appoint an independent and suitably qualified agency to investigate suitably qualified and more cost effective medical services overseas with the overall objective of providing choice, containing costs and introducing a competitive medical environment whilst maintaining standards of care for Members."

The Board subsequently approved Terms of Reference (see 2.1) that sought to utilise internal resources and expertise, with independent external peer review from Health Partners Consulting Group Limited, to undertake the investigation.

A multi-disciplinary team commenced the investigation in April 2011 and concluded in August 2011. This final report was submitted to the Board on 6 September 2011.

The concept of overseas treatment has a relatively low profile in New Zealand: There is an unknown (but probably small) number of people accessing high cost dental procedures and cosmetic surgery in Asia; the South Korean Government's "sponsorship" of weight loss surgery for two New Zealand women this year was the subject of some media coverage; District Health Boards have, on occasion, funded patients to have treatment overseas where those patients required services that are unavailable here or which are subject to significant resource constraints.

In other parts of the world, however, the concept is much better known. Indeed, a large number of countries – notably in Asia, Central and South America, the Middle East and central Europe – now promote themselves as "medical tourism" destinations, offering dental and cosmetic surgery, weight loss surgery, fertility treatment and new technology treatments like stem cell therapy. Some also promote themselves as destinations for medically-necessary elective surgery which is the key area of focus for this investigation (as these are the kinds of surgical procedures funded by the Society).

In this report, references to "medical tourism" or "medical travel" are intended to mean travel from one country to another for the purposes of having a surgical procedure. References to "facilitators" or "facilitation companies" mean third-party intermediaries who assist patients to undertake medical travel, liaising with (or sometimes acting as agents for) hospitals in destination countries.

In this report, references to "extensive cover" Southern Cross plans, means plans that generally reimburse up to 100% of a member's medically necessary and eligible surgical treatment costs, such as the Wellbeing, VIP, UltraCare, Hospital & SpecialistCare, HospitalCare and SureCare plans. References to "shared cover" Southern Cross plans means plans which pay a portion of a member's medically necessary and eligible surgical treatment costs and the member pays the remaining portion; these plans include RegularCare, KiwiCare and First Cover.

A note regarding “importing” providers

While not explicit in the AGM resolution itself, the investigation’s Terms of Reference noted investigating opportunities to bring providers to New Zealand from overseas to compete with local providers in the provision of services.

The Investigation Team recognised that this matter was a subsidiary consideration within the overall investigation, but one that would have considerably increased the scale, complexity and timeframes involved in completing the work. The factors and issues involved with the Society establishing surgical services here using overseas specialists/surgeons are considerably different to those involved with members travelling overseas for treatment.

For this reason, the concept of importing providers has not been addressed in this report. However, the Investigation Team makes the following brief observations:

- A model such as this would entail considerable administrative cost to set up and maintain over time, especially given the international shortage of specialists/surgeons, anaesthetists, nurses etc; New Zealand already faces considerable challenges retaining or recruiting health professionals in our health system.
- The matter of eligibility of overseas providers to practice in New Zealand (assessed by the Medical Council of New Zealand – the statutory organisation responsible for protecting the health and safety of the public by ensuring doctors are competent and fit to practise medicine) is a potentially complicating factor outside of Southern Cross’s control, and may limit the ability of many overseas trained specialists/surgeons from practicing here without lengthy periods of assessment and/or supervision.
- People unfamiliar with the structure of the Southern Cross Healthcare Group may assume that the Society has surgical facilities readily (and cheaply) available to it through the Southern Cross Hospitals network. This is not the case, as the Hospitals network is a subsidiary of the Southern Cross Health Trust (not the Society) and operates independently and at arms length from the health insurance business. Any access to Southern Cross Hospitals facilities would be subject to commercial terms established through negotiation.
- In the course of its investigation of overseas provision options, the Investigation Team did not come across examples of health insurance organisations importing specialists/surgeons to address claims costs by competing with local providers.

The Investigation Team suggests the Board may wish to suspend further investigation of importing providers unless or until information relating to relevant international initiatives, and/or workable local models, become apparent.

2.1 Appendices to this section

Appendix 1: Terms of Reference

2.1 Appendix: Terms of Reference

Overseas Medical Services Investigation Terms of Reference April 2011

Background and purpose

A member-initiated resolution was put to the Society's 2010 AGM requesting the appointment of "an independent and suitably qualified agency to investigate suitably qualified and more cost effective medical services overseas with the overall objective of providing choice, containing costs and introducing a competitive medical environment whilst maintaining standards of care for Members".

Comments from the initiating member published in the Notice of Meeting in support of the resolution referenced the challenges in New Zealand associated with keeping health insurance premiums affordable. The member opined that accessing overseas treatment options will save millions of dollars, drive down local specialist costs and provide members with more choice.

Comments from the Board in the Notice of Meeting acknowledged the challenge of rising healthcare costs faced by funders around the world and the need to pursue initiatives that can enhance competition and price moderation among providers of healthcare services. The Board's comments also pointed out a range of significant questions and potential issues that have arisen when the Society's management has previously considered greater use of overseas treatment options.

Nevertheless, the Board did not oppose the resolution and invited the membership to indicate (through the voting and AGM process) whether it felt such an investigation was justified.

The resolution was passed at the AGM and the Society's Board decided at its February 2011 meeting to proceed with an investigation.

Goal

To assess whether use of overseas treatment options can reduce costs to the Society, and hence moderate premiums, while maintaining the standards of care expected by members.

Objectives

The project will encompass five key objectives, each coinciding with a phase of the investigation:

1. Provision - identify viable options for accessing appropriate, cost-effective, overseas-sourced, healthcare services. Considerations are likely to include:

- which countries may be acceptable options to focus on for the purposes of this investigation
- factors (eg. procedure cost, volume, complexity/recovery time, complications) that may indicate whether specific procedures may be more likely to yield cost savings
- relative costs of those procedures in New Zealand and selected other countries

- members going overseas for treatment and/or overseas providers coming here to provide their services

2. Protection - identify specific factors relating to overseas treatment provision that will be important in ensuring acceptable outcomes for members. Considerations are likely to include:

- quality assurance
- dealing with medical complications
- travel and treatment injury insurance cover
- additional costs for the member such as travel and accommodation

3. Product - find mechanisms that could be used in current or alternative health insurance plans to deliver cost effective overseas treatment for the membership. Considerations are likely to include:

- mechanisms that give members the choice of either NZ or overseas sourced services
- mechanisms that require members to use the overseas-sourced option as a condition of cover
- estimates of cost and/or premium savings (if any) that these mechanisms might deliver
- assess the likely effect these mechanisms may have in enhancing competition within the practitioner market

4. Perception - determine the acceptability and/or appeal to members of product options that incorporate overseas treatment.

5. Recommendation – discuss the investigations findings in relation to the objectives stated in the member-initiated AGM resolutions, namely:

- providing choice
- containing cost
- introducing a competitive medical environment
- maintaining standards of care for members

and conclude whether there is value for the membership in the Society actively pursuing overseas treatment options and, if so, on what basis.

Team

The AGM resolution makes reference to the appointment of “an independent and suitably qualified agency” to conduct this investigation. The reality is that most individuals or organisations in New Zealand that are suitably qualified (ie, able to readily understand and work their way through this complex subject matter) are likely to have relationships or allegiances that might call their independence into question.

The cost of the investigation to the membership is another important consideration.

Consequently, a team structure has been selected that will use internal knowledge and expertise combined with external independence and perspective.

The internal resource will undertake all aspects of the investigation and report preparation, subject to the following points.

The external resource will provide regular (fortnightly) peer review and feedback in relation to the methodology, information gathering, analysis and conclusions of the internal team from the inception to conclusion of the investigation.

The external resource will provide an assessment to the Board, for inclusion in the final report, of the degree to which the investigation process was appropriate and reasonable in order to achieve the goal and objectives of the investigation in the available time frame and reasonable budget.

The external resource will provide a statement to the Board, for inclusion in the final report and for subsequent communications to members, endorsing the report's findings and/or noting aspects of those findings that they do not endorse.

Governance

The Board, as sponsor, has overall ownership and responsibility for the investigation and its outputs (including these terms of reference and the final report).

The Board will commission the investigation's external resource, which will have a direct reporting line to the Board.

The Board delegates the leadership of the investigation team, and implementation of the investigation, to management. This includes all necessary liaison with the external resource to achieve the ongoing independent peer review and feedback.

Management will provide updates to the Board through the Chief Executive Officer's monthly reports.

Outputs /Timeline

April Confirmation of Terms of Reference and Project Team

April Commencement of investigation

July Initial findings to the Board

August Final report to the Board

Sept Communicate findings to the membership via Annual Report and website

3.0 Provision options

3.1 Objectives

The objective in this phase of the investigation – referred to under the heading “Provision” in the Terms of Reference - was to identify overseas options for accessing cost-effective healthcare services.

As the process proceeded this objective was refined to identify countries and facilities that demonstrated capabilities and quality levels that will be expected by New Zealand patients, while at the same time offering procedure pricing that may be sufficiently less than New Zealand pricing to create the opportunity for sustainable claims cost savings.

3.2 Methods

The investigation of provision options proceeded through a series of overlapping stages during April – June 2011.

Procedure identification

An initial step was to establish parameters by which a useful comparison could be made between New Zealand provision and overseas provision.

The project team agreed a “shopping basket” of treatments/procedures for which comparable data from overseas would be sought. The rationale for procedure selection included:

- High/mid/low cost procedures
- Different specialties
- High total claims costs to the Society (hence high potential savings to the membership)
- Sufficiently specific/quantifiable so an “apples for apples” comparison with overseas price data was achievable

The agreed “shopping basket” procedures included:

Specialty	Description	Reasons for selection
Orthopaedic	Total hip replacement	No.1 ranked procedure in terms of Southern Cross claims costs.
	Total knee replacement	No.2 ranked procedure in terms of Southern Cross claims costs.
	Spine fusion	No.13 ranked procedure in terms of Southern Cross claims costs. Highest cost orthopaedic procedure in Southern Cross top 20.

	Rotator cuff repair	No.19 ranked procedure in terms of Southern Cross claims costs. Lowest cost orthopaedic procedure in Southern Cross top 20.
Cardiac	Angioplasty	No.6 ranked procedure in terms of Southern Cross claims costs.
	Coronary artery bypass graft	No.17 ranked procedure in terms of Southern Cross claims costs. Average cost in excess of \$40,000.
	Cardiac valve replacement	No.16 ranked procedure in terms of Southern Cross claims costs. Average cost in excess of \$40,000.
Ophthalmology	Cataract extraction	No.4 ranked procedure in terms of Southern Cross claims costs.
General surgery	Colonoscopy	No.5 ranked procedure in terms of Southern Cross claims costs.
Urology	Prostatectomy <ul style="list-style-type: none"> • robot assisted • laparoscopic • open 	No.12 ranked procedure in terms of Southern Cross claims costs.
Oncology	Radiotherapy	Non-surgical treatment. Considered to be area of potential rapid claims cost growth.

Country and hospital identification and evaluation

The internet was used as the primary source of initial comparative information. Sites accessed included those of international news media; business consultancies; medical tourism industry magazines, blogs and forums; medical tourism 'facilitators'; hospital groups and individual hospitals. A Google Alert was also established for the phrase "medical tourism" which highlighted new internet content on this subject on a daily basis.

In the first phase of this process, the following criteria were used to identify and evaluate country options:

- Evidence of medical tourism infrastructure (profile, reputation, quality-assured hospitals)
- Evidence of lower surgical provision costs compared with NZ and other overseas treatment destinations
- Travel factors (cost, ease and duration).

In the second phase of this process, the following criteria were used to identify and evaluate hospital options:

- Evidence of a strong international reputation
- Accredited by Joint Commission International

- Existing relationships with foreign funders such as health insurers – a possible indicator that those facilities have been subjected to a level of scrutiny / due diligence
- Size - number of beds, number of foreign patients
- Broad range of elective surgeries offered
- Quality of information available online with respect to international patients.

Engaging with Hospitals

A total of seven hospitals from four different countries were approached by email with requests for information relating to procedure pricing, patient management processes and existing relationships with out-of-country insurers.

3.3 Findings

Refer to section 1.0 Executive Summary for key findings.

3.4 Conclusions relating to provision

India, Thailand and Singapore have established reputations as destinations that offer high quality, medically necessary, elective surgery for international patients. Malaysia is an emerging participant in this market. All four countries have a good stock of quality-assured (JCI-accredited) hospitals.

Some significant per-procedure savings are available in each country but India appears to be the market leader on price. On a prima facie basis, it appears that procedures with an average cost in New Zealand of \$15,000 could be accessed in India at a lower overall cost, even when factoring in travel and accommodation costs. The financial threshold is likely to be higher for procedures in Thailand, Singapore and Malaysia; with overall savings potentially achieved for procedures with an average New Zealand cost of \$20,000 - \$25,000. Cardiac procedures that cost upward of \$40,000 are likely to yield per-procedure savings of many thousands of dollars in all four countries.

Australia was ruled out at this stage of the investigation as a potential source of claims cost savings for Southern Cross members. Internet-sourced data – including detailed 2009-2010 breakdowns of surgical costs published by insurer HCF - suggested Australian total procedure costs (excluding Medicare subsidies to which Australian residents are entitled) were similar to those in New Zealand. This finding was further validated through direct claims costs comparisons with leading Australian insurer, Medibank.

Additional useful information was found during the provision phase of the investigation. This included benchmarks for the length of hospital and hotel stays following major surgery, and likely consultation and treatment processes.

4.0 Protection of members

4.1 Objectives

The objective of this phase of the investigation – referred to under the heading “Protection” in the Terms of Reference - was to identify specific factors relating to overseas treatment provision that will be important in ensuring acceptable outcomes for members.

The Terms of Reference specified quality assurance, dealing with medical complications, travel, treatment injury insurance cover and additional costs to the member as matters to consider.

4.2 Methods

Maintaining standards of care for members is an explicit assumption in the overseas treatment resolution passed at the 2010 AGM.

The Terms of Reference and the Investigation Team have applied a broader scope, considering not only treatment outcomes (and the various aspects that contribute to them) but also ancillary risks or concerns that might arise as a result of New Zealanders leaving the New Zealand health jurisdiction for treatment.

The internet was used as the primary source of information. Sites accessed included those of international news media; business consultancies; medical tourism industry magazines, blogs and forums; medical tourism ‘facilitators’; hospital groups and individual hospitals. A Google Alert was also established for the phrase “medical tourism” which highlighted new internet content on relevant matters. Targeted Google searches (for example, relating to deep vein thrombosis, superbugs, and travel risks associated with surgery) were also used to find different and deeper perspectives on issues that had been identified in initial literature reviews.

4.3 Findings

[Refer to section 1.0 Executive Summary for key findings.](#)

4.4 Conclusions relating to protection

A range of issues have been identified in this part of the investigation which may raise uncertainty for many patients above what they would experience in a New Zealand context. Foremost are issues associated with avoiding adverse impacts on patients’ health:

- Ensuring continuity of care
- long distance travel when unwell
- risk of DVT
- risks associated with any surgery
- infection and superbugs.

Then there are issues that suggest potential financial impacts / protection:

- Costs / insurance cover for treatment injury
- costs / insurance cover for any other problems encountered during a trip that is for medical treatment purposes.

Various management and mitigation strategies have been identified to address some of these individual issues. However, in many cases this will entail increased cost and/or increased administrative involvement / overhead, which may erode the financial viability of overseas treatment options.

Matters related to ACC cover for treatment injury, insurance options for medical travellers and New Zealand clinicians' attitudes and approach to medical travel are areas that would warrant further investigation and consultation if Southern Cross were to give consideration to introducing additional benefits related to overseas treatment.

5.0 Member appeal

5.1 Objectives

The objective in this phase of the investigation – referred to under the heading “Perception” in the Terms of Reference - was to determine the acceptability and/or appeal to members of health insurance options that incorporate overseas treatment.

This poses a particular challenge, given that there is currently little awareness, knowledge or active consideration in New Zealand of overseas options for medically necessary elective surgery. Consequently, as well as looking at Southern Cross member perceptions, the Investigation Team sought to access information from other markets/countries where the medical tourism concept may be more developed and hence better understood. That information included consumer and industry research, plus other information that addresses consumer perceptions, in order to contextualise Southern Cross member feedback.

5.2 Methods

The following methods were used to investigate and contextualise Southern Cross member attitudes to the concept of overseas treatment and potential benefit/product options.

Member survey

Southern Cross’s ‘Viewpoint’ is an online member panel consisting of individuals who have agreed to participate in ongoing surveys. 1700 emails were sent to panellists in June 2011 inviting their participation in a survey relating to the 2010 AGM overseas treatment resolution. 700 panellists completed the 15-20 minute survey.

Overseas research

Reference to research studies in internet-sourced medical tourism literature enabled the Investigation Team to access some consumer and industry research online. Targeted Google searches and Google Alerts were used to find additional academic and commercial research studies.

Expert commentary from New Zealand and overseas

Contact was made with two New Zealand-based cosmetic tourism ‘facilitators’ and a detailed interview was undertaken with a director of one of these companies. Blogs from overseas industry participants were also accessed (notably International Medical Travel Journal at www.imtj.com).

5.3 Findings

Refer to section 1.0 Executive Summary for key findings.

5.4 Conclusions relating to member appeal

The Southern Cross Viewpoint survey indicates a minority of members would be likely to consider surgery in India or Thailand if they required major surgery. The proportion increased from 11% in a financially neutral scenario to 25% in a scenario where the member could make a direct saving of up to \$10,000.

A direct and significant financial incentive may be the most likely motivator for members to take up overseas treatment options in any numbers. Reduction in premiums is not a sufficient motivator.

Members, in general, believe they will receive a better quality of treatment in New Zealand; members are least comfortable with the countries that are most likely to yield claims savings; member satisfaction with/loyalty to Southern Cross might be affected by aspects of the overseas treatment concept.

Overseas research also yields valuable insights.

Research and empirical evidence suggests that prospective medical travellers are (paraphrasing one commentator) predominantly the uninsured, the underinsured and the uninsurable. The chief motivation for these travellers seeking medically necessary elective surgery is to avoid lengthy waits for publicly-funded treatment or much higher private provision costs in their own country.

Some commentators also caution that organisations evaluating the size of the medical traveller market should not read too much into research findings that consumers are “likely to consider” overseas treatment. It is easy to respond positively to a concept in a research survey; the level of positive response will be different when the individual confronts the reality of undertaking long distance travel to have major surgery.

6.0 Insurance options

6.1 Objectives

The objective in this phase of the investigation – referred to under the heading “Product” in the Terms of Reference - was to consider ways in which overseas treatment options could be made available to members in existing or entirely new health insurance plans.

The Terms of Reference asked the Investigation Team to consider optional (ie member’s discretion to use) or required (ie Southern Cross’s discretion to use) product options; estimating claims costs and premium savings; and assessing the likely effect on competition within the practitioner market.

6.2 Methods

Financial modelling and analysis

To assess the potential impact of overseas treatment benefits on claims costs and premiums, two financial modelling tools were created.

The purpose of model 1 was to assess potential savings on a per-procedure basis, factoring in expected claimable costs related to surgery in New Zealand and overseas. Key assumptions for model 1 were:

- Analysed procedures were those from the ‘shopping basket’ identified in section 3 of this report for which good comparative information was available.
- New Zealand pricing for those procedures was the average amount charged in relation to Southern Cross members in the 2010 calendar year.
- Overseas pricing used in initial development of the model was accessed over the internet. Pricing for the “best case” estimates was provided directly to Southern Cross by the lowest cost overseas provider.
- Travel costs were based on online prices offered by known airlines for economy seats.
- Hospital and hotel accommodation costs were estimated based on rates offered by good quality hotels in reasonable proximity to destination hospitals for durations commensurate with each procedure.
- ‘Best estimates’ were used to assess additional necessary costs such as food, transport, insurance.
- Currency exchange rates were as at the date pricing information was accessed.

The purpose of model 2 was to apply the estimates of per-procedure savings from model 1 and other variables to derive potential total claims cost savings for the Society, and the impact of those savings on members’ premiums:

- Southern Cross’s 2010 surgical claims were split into 8 cost categories based on the total amount charged to the member: less than \$10,000; \$10,000-\$20,000; \$20,000-\$30,000 etc up to \$70,000 or more.
- These cost categories were further split into “shared cover” and “extensive cover” product sub categories, and split again by member age and procedure volume.
- Per-procedure savings from model 1 for each cost category, and “likely to consider” rates from market research, could then be entered into the model to derive estimates of total claims cost savings and consequent impacts on premiums.

These models represent valuable intellectual property that can be utilised by the Society for ongoing monitoring and analysis of the overseas treatment opportunity.

[Insurance options](#)

The Investigation Team undertook a comprehensive review of overseas treatment-related benefits in New Zealand health insurance plans.

International literature on medical tourism was reviewed to identify information relevant to overseas treatment benefit design, including details of insurance plans or benefits offered or trialled by overseas insurers.

The Investigation Team then compiled a range of “strawman” insurance options, based on learnings from overseas applied to the Southern Cross environment.

6.3 Findings

[Refer to section 1.0 Executive Summary for key findings.](#)

6.4 Conclusions relating to insurance options

The key conclusions in this section of the report include:

- Travel and other costs associated with overseas treatment mean that the potential for savings on surgical procedures that currently cost less than \$20,000 (i.e. 98% of surgical procedures funded by the Society, which account for 76% of current surgical claims costs) is small.
- This would limit any possible impact of overseas treatment options on the Society’s associated claims costs across a broad range of procedures and areas of specialty.
- Higher cost surgery, notably some cardiac procedures, have the potential to yield significant savings on a per-procedure basis. However, even in a “best case” scenario, assuming significant levels of utilisation by members, the overall impact on Southern Cross claims costs would be less than 1%.

- Overseas insurers' experience shows that, to date, initiatives to enable/incentivise overseas treatment have failed to generate any meaningful volume of travellers, resulting in little or no impact on their claims costs.
- Some isolated examples have been found of overseas treatment options apparently impacting on competitive dynamics in local surgical markets in the US and UK. Overseas treatment options for Southern Cross members are unlikely to have an impact on competitive dynamics in the New Zealand market for many procedures and areas of specialty. The theoretical exceptions might be those very high cost procedures, such as some cardiac surgeries, where the potential savings on a per-procedure basis are considerable and Southern Cross currently funds a very large proportion of New Zealand private provision.
- However, of more interest is the degree to which domestic medical travel has emerged in the US as an alternative to international medical travel. This idea is already under consideration by the Society as a potential means by which surgical volumes could be steered from high cost providers to lower cost providers.
- If it is decided that overseas treatment should be pursued further, a logical first step would be to evaluate a new or expanded overseas treatment benefit for all plans that enables members to initiate and implement their own arrangements and manage their own risks. An important caveat to this, or any other product development, is that the cost to develop and administer the benefit should not exceed the expected claims costs savings.

7.0 Conclusion

The purpose of this investigation was, in essence, to test the hypothesis put forward in the overseas treatment resolution passed at the 2010 AGM: i.e. that using overseas treatment options of a suitable quality will generate claims cost savings and moderate members' premiums, and in the process stimulate a more competitive dynamic in the New Zealand elective surgery market.

Key findings in the investigation were as follows:

- High quality, lower cost elective surgical treatment is available to New Zealanders in a range of Asian destinations, most notably India.
- The transport, accommodation and other costs associated with accessing surgery overseas mean that useful savings may only be achieved for procedures that have an average New Zealand cost of around \$20,000 or more. Such procedures represent a small proportion of surgical procedures funded by the Society.
- If a 'medical travel' benefit were introduced to members' policies, the number likely to use it would be very small. Southern Cross research found that a weighted average of around 15% of members surveyed said they would be likely to consider overseas treatment if they required major surgery. Overseas experience demonstrates that the number that would actually take up the option would be much smaller again.
- With claims savings available for only a small proportion of the Society's surgical claims, and a projected low level of utilisation by members, the consequent impact on claims costs to the Society, and the flow-on benefit in terms of the premiums members pay, would be insignificant.
- The expected impact on the competitive environment in New Zealand would also, therefore, be minimal.

On this basis, the Investigation Team finds that the hypothesis has not been proven, and that there would be little or no benefit for the membership in the Society pursuing overseas treatment options at this time.

Footnote: The Investigation Team notes that its findings are based on the best available information from public sources and/or from Southern Cross's own resources and connections. While there is a small degree of ambiguity and uncertainty in some of that information, the Investigation Team does not believe that this is material in relation to the conclusions reached in this report.

8.0 External project assessment

Independent investigation assessment: Health Partners Consulting Group Limited



Independent assessment of Southern Cross Medical Care Society's investigation into overseas treatment opportunities

Dear Directors,

A member-initiated resolution to conduct an overseas treatment investigation (OTI) to, *inter alia*, contain costs for Southern Cross Medical Care Society (Southern Cross) members was passed at the Southern Cross 2010 Annual General Meeting (AGM). The Society's Board decided at its February 2011 meeting to proceed with an investigation.

The member-initiated AGM resolution proposed that an "independent and suitably qualified agency" conduct the investigation on behalf of Southern Cross. The Society's Board determined that it was in the best interests of members for Southern Cross to conduct the OTI with independent scrutiny and input from inception to conclusion of the project to ensure the process and findings are reasonable.

Health Partners Consulting Group (HPCG) was commissioned by Southern Cross to provide independent scrutiny and input based on its extensive expertise and working knowledge of health systems both in New Zealand and internationally. HPCG is an Australiasian based health consultancy that provides advice to governments, agencies, and organisations on health policy, system design, organisational performance, change management and implementation.

As Managing Partner of HPCG I have lead our independent scrutiny of the OTI drawing on my knowledge of health systems developed over twenty years experience in health executive management and chief executive positions including being Director-General of Health in New Zealand (2006 – 2010). My health sector expertise includes leading the turnaround in financial performance of health organisations that has involved difficult cost and quality trade-off decisions. I have a strong interest in health system performance speaking regularly at international forums on this topic. I also represented New Zealand on the Executive Board of the World Health Organisation and its Programme Budget Committee. Other members of HPCG have provided policy, financial and clinical input into our independent scrutiny of the OTI.

In undertaking its independent role, HPCG has assessed the OTI project methodology and analysis against the investigation objectives outlined in the 2010 Annual General Meeting OTI resolution. We have been involved in the OTI project since its commencement, with the focus of initial meetings with the Southern Cross OTI project team being to determine HPCG's role and to provide input in the development of the OTI project

Terms of Reference. Subsequently, we have met regularly with the OTI project team providing peer review and feedback on project:

- Planning and management
- Methodology
- Information gathering
- Analysis
- Conclusions
- Recommendations

HPCG and OTI project team meetings were conducted in an open information and communication fashion. The OTI team has freely provided HPCG with information upon which to conduct its independent scrutiny. The OTI team has incorporated HPCG feedback where this has been considered appropriate. Examples of such changes include bringing forward the membership survey, and increasing the number of overseas providers assessed for cost-saving opportunities.

HPCG considers that the OTI project team has managed the investigation within a reasonable scope. Focusing on a 'shopping basket' of procedures is an appropriate way to manage the scope of the investigation, while also providing sufficient leverage to assess potential cost containment options for members. HPCG considers that the criteria used to select OTI 'shopping basket' procedures has provided a representative group that gives a good indication of potential cost savings. Investigating a more comprehensive range of procedures would have been unlikely to provide greater benefits for the extra project costs incurred.

The method used to identify and evaluate country and hospital providers for treatment opportunities has also been appropriate. Reasonable and transparent criteria were used to narrow the focus to a selection of countries that could yield claims cost-savings. Hospitals were then identified and evaluated on agreed criteria. Importantly this included sourcing pricing information from the hospitals themselves. While not all hospitals responded to the information requests, the information received provides a good basis for assessing potential cost-savings from overseas treatment opportunities.

Maintaining standards of care for members necessarily circumscribes the overseas treatment options available for assessment. However, this is a stipulation of the AGM resolution, and almost certainly would be a significant consideration for most Southern Cross members. In this regard, HPCG considers that the OTI project team has as far as practicable used methods to identify overseas health providers that are likely to deliver

comparable standards of care to those expected by Southern Cross members. This is a very challenging and complex area that is fraught within jurisdictions, let alone across them.

The major proxy for standards of care used by the OTI project team - JCI accreditation - gives some assurance to the Board that standards of care at these hospitals are comparable to those in New Zealand, and to those Southern Cross members expect. JCI accreditation is frequently used in the international literature on 'medical tourism' as an indicator of hospital standards of care. JCI is also accredited by the International Society for Quality in Health Care (ISQua). However, as the OTI project team correctly points out, more extensive analysis would be required to provide fuller assurance to the Board. It should also be noted that standards of care vary across New Zealand hospital providers.

The financial modeling tools created to analyse potential claim cost savings are based on reasonable assumptions. As could be anticipated, the physical distance of New Zealand from overseas markets does impact on potential overseas treatment destinations due to both travel time and cost. The OTI project team has made reasonable assumptions regarding travel factors, including providing a range of options and considering clinically relevant factors. Additionally, the Membership survey conducted through existing processes (to save on time and cost) to assess the appeal of overseas treatment options provides an indication of potential membership demand for such options. The model findings provide the Board with reasonable indications of potential cost savings to inform development of any agreed product offerings, noting that these indications are based on assumptions that are subject to change over time (for example, exchange rates, travel costs, and membership preferences).

Undertaking an assessment of overseas treatment opportunities is a challenging task due to the relative 'newness' of the 'medical tourism' market, cross-country differences, and availability of quality-assured information on financial and clinical measures. The OTI project team has appropriately highlighted uncertainties and risks associated with overseas treatment opportunities, including uncertainty around potential cost savings.

HPCG notes that based on the findings of the investigation: Society-wide cost-savings and hence premium reductions are unlikely to be realised at a material level at this time; in a small minority of cases there could be some material benefit for individual members depending on procedure(s), provider, and the type of cover a member has. Increasing member choice to access overseas treatment options, where this is financially sustainable to the Society, is a worthy goal in and of itself. It may also provide an incentive for new members to join the Society. HPCG suggests that Southern Cross retains a

'watching brief' on the 'medical tourism' market for opportunities to improve value for members as the market matures.

It is difficult for us to determine what, if any, impact on procedure pricing in New Zealand might occur if Southern Cross were to offer some form of "medical tourism" products to its members. HPCG notes that procedure costs vary in New Zealand across providers and geographic locations. Procedure costs in New Zealand vary within the private sector, and between the public and private sectors. In many instances, these cost variations reflect local service delivery circumstances; in others, it is unclear why the cost variation is so pronounced. A finding of the investigation was that New Zealanders are willing to consider travelling for treatment within New Zealand. HPCG suggests that Southern Cross continues its work on the potential to exert greater competitive pressures within the New Zealand health system through evaluating member travel options for treatment where this is clinically sound.

Overall, HPCG considers that the OTI has been conducted in an appropriate and thorough way. The Board can have confidence in the reasonableness of the OTI advice and conclusions presented in this report, whilst also acknowledging the complexity and uncertainty of healthcare service delivery itself and the emerging 'medical tourism' market.

A handwritten signature in black ink, appearing to read 'S. McKernan', is written over a light blue rectangular background.

Yours Sincerely,

Stephen McKernan

Managing partner

TOMORROW'S HEALTH TODAY

4