

The Frontier Line

Private health insurance: Health check

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About us

Frontier Advisors has been at the forefront of institutional investment advice in Australia for over thirty years and provides advice on around \$900 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Our purpose is to empower our clients to advance prosperity for their beneficiaries through through knowledge sharing; customisation; technology; and an alignment and focus that is unconstrained by any product conflicts.



AUTHOR

Andrew Longmore, FIA

Principal Consultant and Deputy Head of Liability Driven and Government Investors

Andrew Longmore is a Principal Consultant and Deputy Head of Liability Driven and Government Investors. He joined Frontier Advisors in 2018 and works in a specialist client consulting role advising insurers and other liability driven investors. Before joining Frontier, Andrew spent seven years at Mercer in their Institutional Wealth business providing advice to clients on a broad range of superannuation and investment related issues. Prior to this, he also worked for Mercer in the United Kingdom where he spent four years in an actuarial consulting role. Andrew holds a Bachelor of Science (Applied Mathematics and Theoretical Physics) from Queen's University Belfast. He is a Fellow of the Institute and Faculty of Actuaries and a Chartered Enterprise Risk Actuary.



AUTHOR

Joanna Yang, FIAA

Senior Consultant

Joanna Yang joined Frontier as an Associate in 2021 and was promoted to Senior Consultant in 2025. She is a member of the Liability Driven and Government Investor Team and provides investment strategy advice to insurers and other clients who have a liability profile. Prior to joining Frontier, she worked in the actuarial team at EY for two years providing analysis and advice to various clients across the health, human services and banking sectors. Joanna holds a Bachelor of Science (Mathematics and Statistics) and Masters of Actuarial Science from the University of Melbourne. She is a Fellow of the Institute of Actuaries Australia.

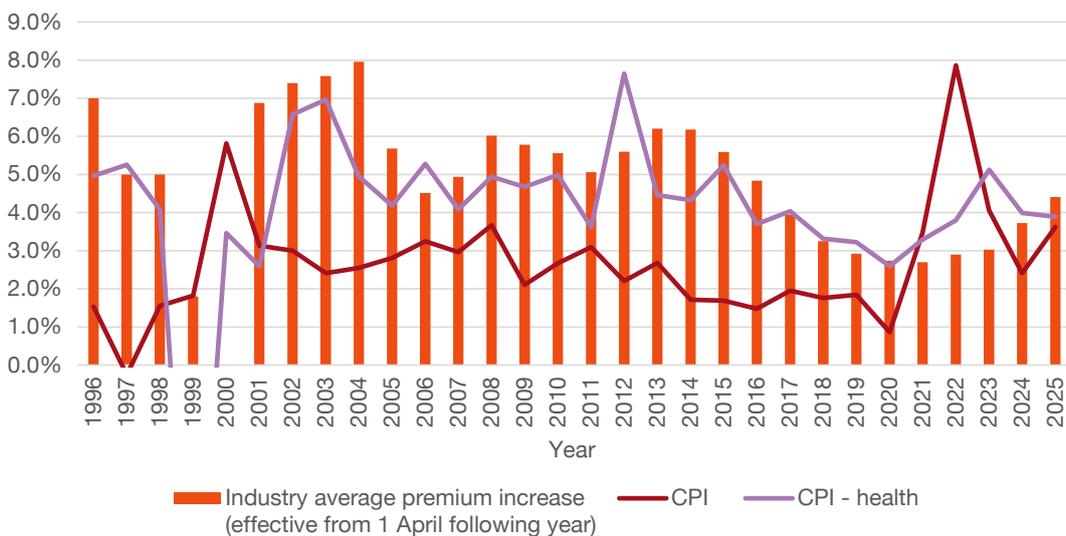
Operating conditions for Australia’s private health insurers (PHIs) have been challenging for several years, with many industry commentators warning of a potential ‘death spiral’.

This concern stems from factors such as an ageing population; increased use of health care services; and rising premiums caused by increasing health care costs. Ultimately, these pressures make health insurance less attractive and less affordable for younger and healthier member cohorts, who are needed to help sustain the industry.

The COVID-19 pandemic provided somewhat of a silver lining for PHIs, with a lower volume of claims and an increase in younger members taking out insurance cover. However, most insurers committed to not profiting from the pandemic and have returned around \$4.8 billion in funds to consumers up to 30 June 2025.

At the same time, the sector is also not immune to the impact of higher inflation with health care inflation typically outpacing the core rate of inflation. In Australia, increases in PHI premiums are a regulated annual process that requires approval from the Federal Government to ensure fairness, affordability and financial viability. The average premium increase approved by the government for 2026 is 4.41%, with increases for individual insurers ranging from 1.98% up to 5.98%. Although average premium increases have been lower in recent years than in the past, they now appear to be trending higher.

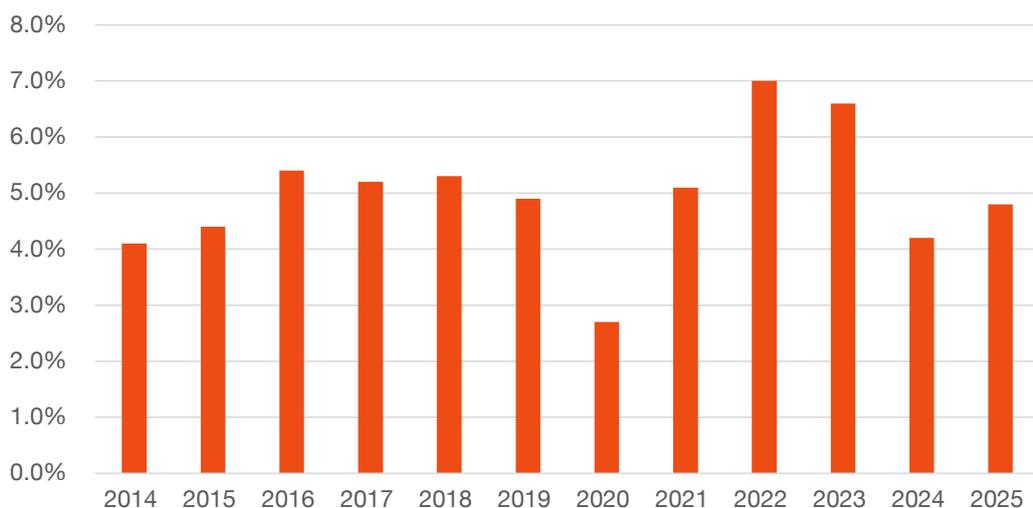
Chart 1: Average premium increase



Source: Department of Health, Disability and Ageing, Australian Bureau of Statistics

Despite these challenges, average sector profitability has remained relatively stable over time, suggesting PHIs are not generating outsized profits and instead the average increase in premiums is reflective of higher costs. Further, the average claims ratio (the amount paid out in claims as a percentage of premium revenue) has consistently been around 84-86% over the past twenty years and was 84.3% for the 2025 financial year.

Chart 2: Average health insurance business net margin for the private health insurance sector (%)



Source: APRA

Critics, however, argue an inadequate portion of premiums is being returned to consumers in the form of health care services with the Australian Medical Association calling for a mandated minimum 90% claims ratio and reduced exclusions within policies.

There have also been well publicised disagreements between PHIs and private hospitals, with private hospitals arguing insurers are not passing on enough money to cover rising health care costs in the hospital system. In several instances, we have witnessed a degree of brinkmanship in contract negotiations between the two parties, with private hospitals threatening to terminate existing contracts and withdraw services for members.

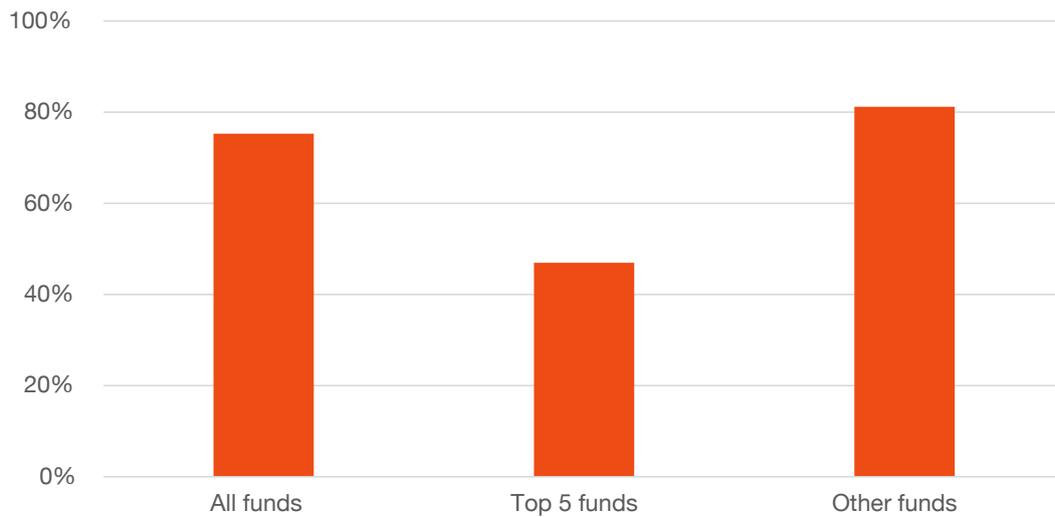
Without drawing judgment on who is right or wrong in this argument, it is clear the private hospital sector has faced significant financial difficulties, which were further compounded by the COVID-19 pandemic. These pressures culminated in one of Australia's largest private health care providers entering administration in May 2025. Its collapse also reignited scrutiny of the sustainability of its business model following the debt-laden takeover by its private equity owner.

One positive development for PHIs has been the improvement in investment profits, driven by strong asset returns and a greater contribution to total profit margins. This has been especially evident in defensive assets such as cash and short duration credit or fixed income, which typically represent the bulk of PHI investment portfolios and have benefited from higher interest rates.

In the 2025 financial year, on average, investment income accounted for 75% of total profit (before tax). This share was even higher for smaller PHIs in comparison to the five largest PHIs, who dominate with just over 80% combined market share.

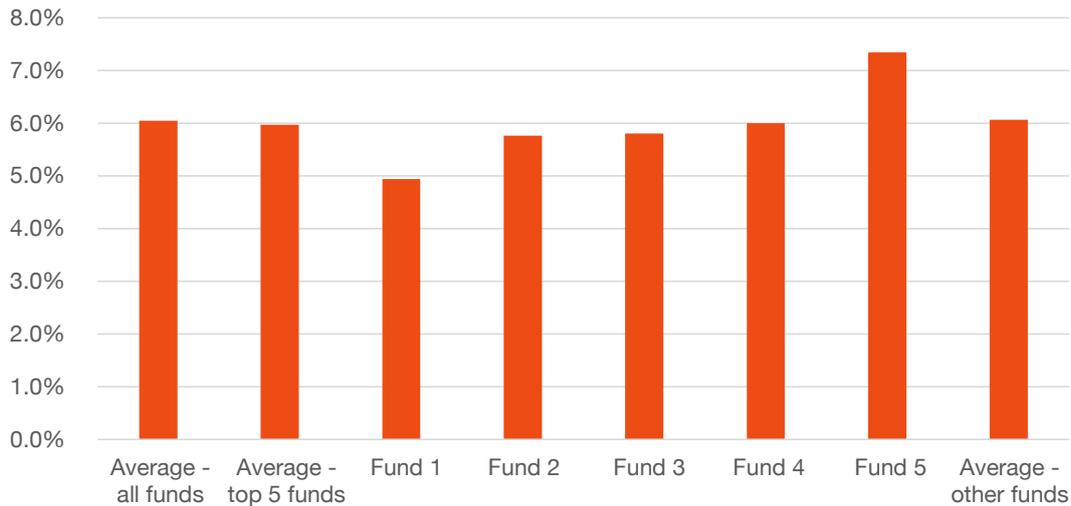
Investment outcomes were remarkably similar in the 2025 financial year, clustered at around 6% for the year on average. However, data is limited and this is an estimate based on investment result as a percentage of total cash and other financial assets.

Chart 3: Investment income as a proportion of profit (before tax) for FY25



Source: APRA, Frontier

Chart 4: Estimated investment portfolio return for FY25

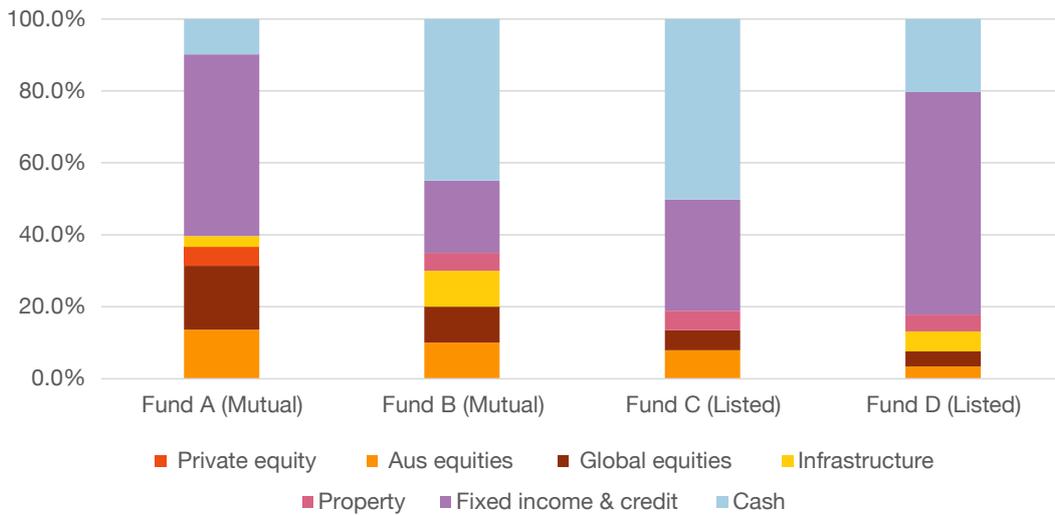


Source: APRA, Frontier

Historically, many PHI investment teams have noted organisational focus was more centred on underwriting and operational performance, with investment outcomes viewed as secondary. This was understandably fair when interest rates were low and the contribution from investment was much smaller. *However, this recent analysis demonstrates the renewed importance of investment return in overall profit outcomes and its ability to support wider business objectives.*

These developments also invite a closer look at asset allocation and portfolio construction, especially considering the investment portfolio's role in driving results. Accepted wisdom generally suggests that due to high liquidity needs and the short-term nature of liabilities, PHI investment portfolios tend to be limited to investing in cash and other shorter term income instruments. However, in practice there is some diversification across portfolios, including allocations to equities (both public and private) as well as less liquid private market investments across credit, infrastructure and property. While liquidity is a key consideration and a risk to be managed, PHIs are often well placed to accept greater levels of illiquidity and market risk to further enhance investment return outcomes.

Chart 5: Asset allocation



	Fund A (Mutual)	Fund B (Mutual)	Fund C (Listed)	Fund D (Listed)
Capital adequacy multiple	2.5	3.8	1.9	2.3

Source: Annual reports and investor presentations

Other factors will also influence asset allocation. For example, there does appear to be anecdotal evidence for a link between an insurer’s ownership structure (public listed company or not-for-profit mutual) and tendency to invest in equities. We observe a greater allocation to equities (both public and private) for mutual insurers compared to publicly listed insurers who may be more sensitive to the impact of equity market volatility on their own financial reporting to investors. Additionally, compared to listed insurers, mutual insurers generally maintain a much higher capital adequacy multiple due to their limited options to easily raise additional capital. This additional capital buffer allows them to put more capital into investment activities, take on higher investment risk to boost returns, and better absorb the higher asset risk charges that come with it.



The final word



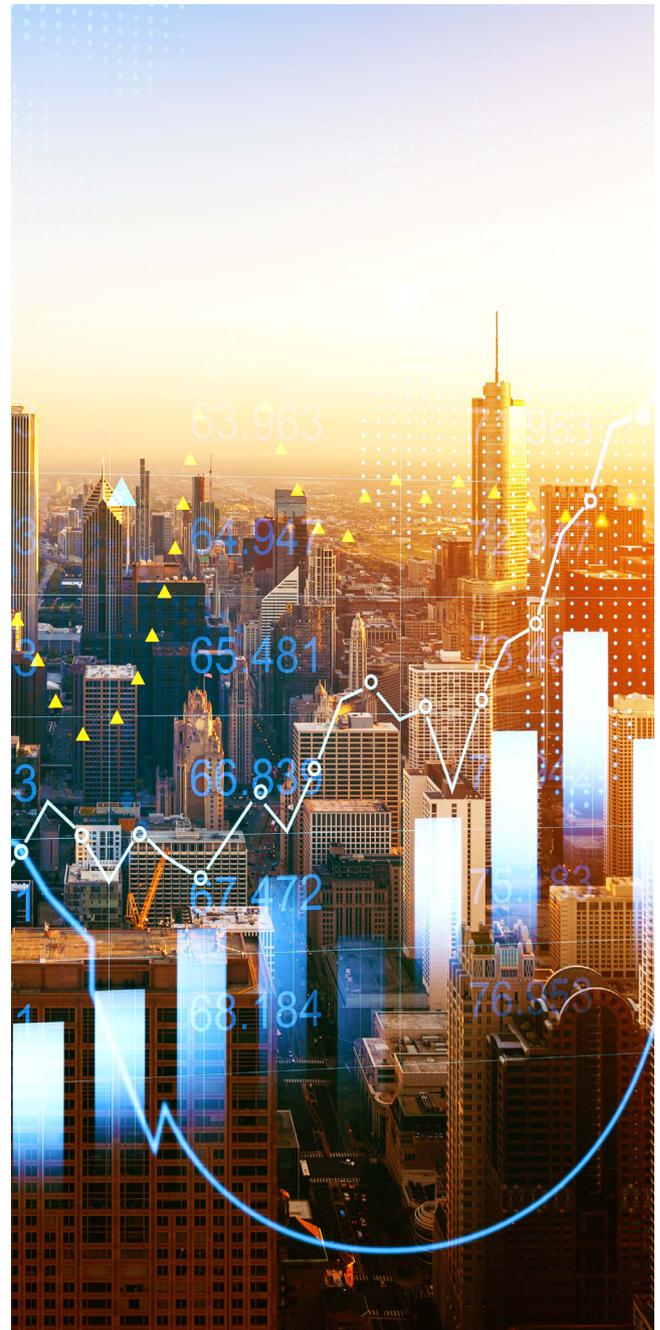
With the return to a more normalised interest rate environment, we believe it is an opportune time for PHIs to re-test their investment strategy.

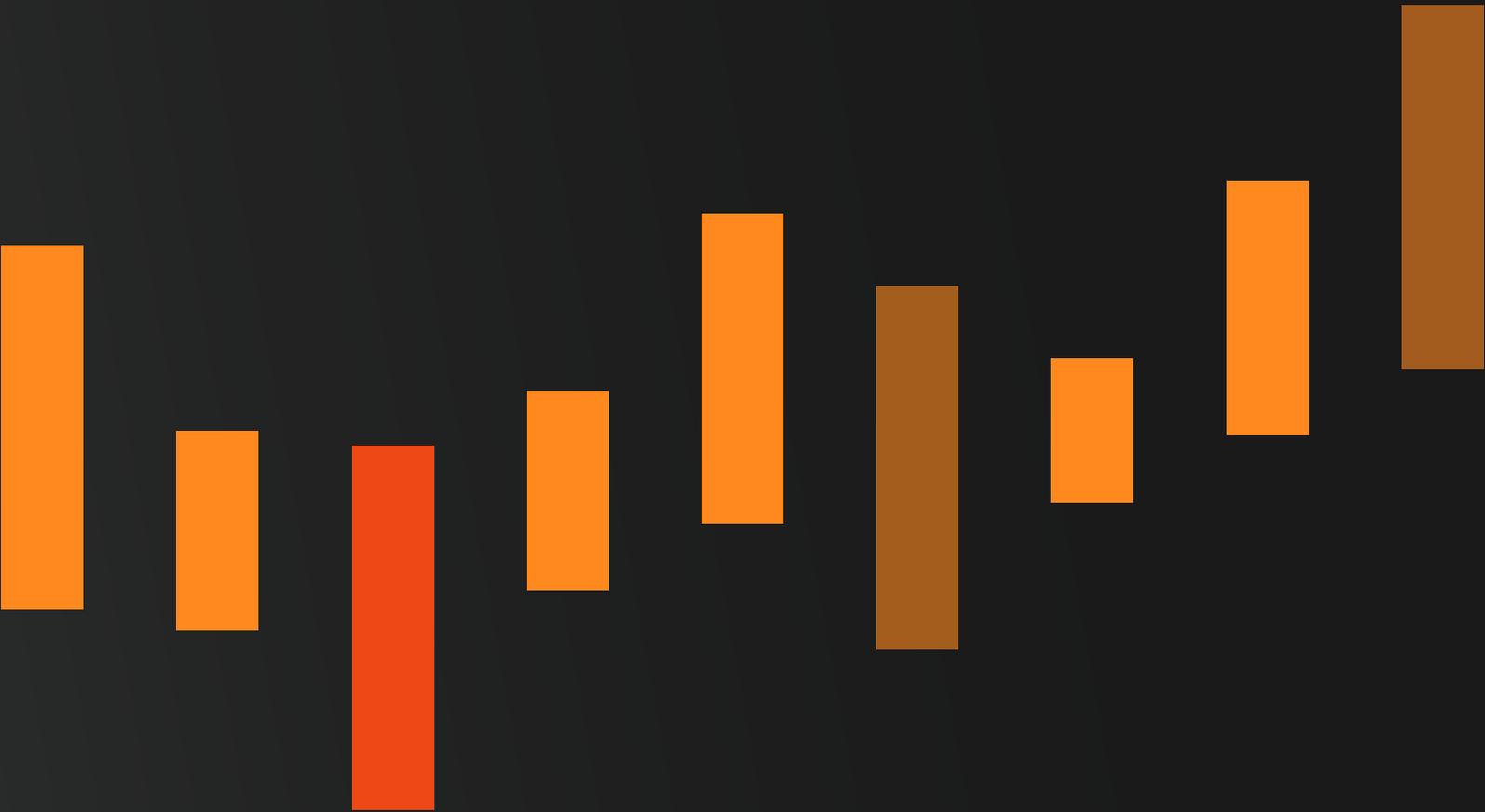
The potential incremental return available to PHIs through a robust and evolving investment program can ultimately support a more competitive and agile business, especially for those insurers where investment income increasingly accounts for the majority of profit in the business.



Learn more

Frontier Advisors has experience working with a range of insurers across a number of states and territories helping create diversified portfolios, fit for both the current and future investment environment. Please reach out to our dedicated LDI & Government Team if you would like more information on how we can help you with your portfolio.





Frontier Advisors

Melbourne office

Level 17, 130 Lonsdale Street, Melbourne, Victoria 3000
Tel +61 3 8648 4300

Sydney office

Level 21, 83 Clarence Street, Sydney, NSW 2000

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