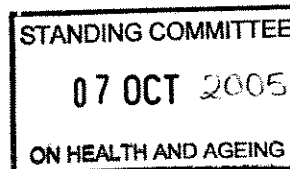




Australian Government
Private Health Insurance
Administration Council

PHIAC Reference: 050930_reps_eg



Mr Alex Somlyay
Chairman
House of Representatives Standing Committee
On Health and ageing
Parliament house
CANBERA ACT 2600

Dear Mr Somlyay,

Portability of Health fund Membership

I refer to the letter from the AMA to you dated 22 September (a copy of which was sent to me by the AMA) in relation to my comments to your committee on 21 September that PHIAC was of the view that providers should face the same penalties as health funds where they encouraged members to transfer to another fund for financial benefit.

The purpose of Section 74BA (Inducing contributors to transfer to other funds) of the National Health Act (NHA) is to prevent a fund from encouraging a contributor to transfer to another fund because the contributor is likely to make a claim. The section is clearly aimed at preventing a registered organisation from achieving a financial benefit by encouraging such a transfer.

As noted in my comments to your committee, PHIAC is of the view this section should apply to all participants in the industry. That is, the penalty should apply to any fund or provider who encourages a contributor to move to achieve a financial benefit for that fund or provider. A fund or provider in this situation is, in effect, giving financial advice. Moreover, they are almost certainly doing so without full disclosure of their conflict of interest, that is, that transfer for the contributor is likely to benefit the fund or provider at least as much as the contributor. In all other forms of insurance, advice to change insurance companies requires clear statements of any benefits that may accrue to the provider of the advice. It is not clear to PHIAC that health insurance should differ from that norm.

As I mentioned in my evidence to the Committee, PHIAC is aware of a fund which received a large number of transfers over a relatively short period of time because of the higher gap payments they offered. The transfers were encouraged by some providers. The outcome was a rate increase considerably above average for that fund. The long-term members of that fund faced a financial penalty through higher premiums as a result of those transfers.

PHIAC is of the view that portability is a consumer protection measure and we believe that it is important that it remain. We are not aware that funds view easy portability as a menace as the letter from the AMA suggests. Funds do, rightly, want to ensure that they are not targeted for what is, in effect, hit and run behaviour, because it penalises their longer-term members to benefit short-term interests of transferees.

I reiterate the statement that I made to the Committee. PHIAC's view remains that the penalty provisions under Section 74 BA of the NHA should apply equally to all parties – funds and providers.

Yours sincerely

Gayle Ginnane
Chief Executive Officer

30 September 2005

Cc. Mukesh Haikerwal
John Powlay
Linda Addison