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Committee Secretary  
Senate Standing Committee on Community Affairs  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Committee Secretary,

Thank you for the opportunity to appear before the Senate inquiry into the value and affordability of private health insurance.

During the public hearing on Wednesday 5 July, Medibank received nine questions on notice. Our responses are attached.

Yours sincerely,

Craig Drummond  
Chief Executive Officer

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 36, 5 July 2017

Senator: Xenophon

## Question:

Senator XENOPHON: ...What is the payout ratio for Medibank, both pre and post privatisation, in terms of total premium income? What is your total premium income? I don't know if you have it for the 2016-17 year; what was it for the 2015-16 year?

Mr Wilson: I take on notice to get information on the change going back pre-privatisation. I don't have that.

## Answer:

Medibank paid \$5.1 billion in benefits to our customers in 2015-16.

In the 2013-14 financial year, prior to privatisation, Medibank received \$5.5 billion in premium revenue and our payout ratio was 87 per cent.

In the 2014-15 financial year, during which Medibank was privatised, Medibank received \$5.8 billion in premium revenue and our payout ratio was 86 per cent.

In the 2015-16 financial year, Medibank received \$6.04 billion in premium revenue and our payout ratio was 84 per cent.

Associated figures for the 2016-17 financial year are yet to be finalised.

As detailed in our submission to the inquiry, the recent decrease in our benefit ratio reflects efficiency improvements and is an indication of the business' focus on placing downward pressure on health costs and premium increases.

Medibank is also a leader in payment integrity processes to ensure our customers are only paying for procedures and practices that have been rightly performed. The cost of Medibank's payment integrity processes is reflected in our management expenses and the effectiveness of these processes results in reduced benefit payments as we – and our customers – are not paying for inappropriate charges.

It is important to stress that payment integrity is essential to ensuring our customers are not being overcharged.

Payment integrity contributes to downward pressure on premiums.

Medibank estimates that our benefit claims would be approximately three per cent higher if our payment integrity processes were inadequate.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 36, 5 July 2017

Senator: Xenophon

Question:

Senator XENOPHON: But you'd have an idea: has the payout ratio changed since privatisation?

Mr Wilson: The payout ratio had started to decline slightly prior to privatisation, but the exact numbers, again, I would need to take on notice.

Answer:

Refer to previous answer.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 36, 5 July 2017

Senator: Xenophon

Question:

Senator XENOPHON: ...what was the return on equity for Medibank? Could it be calculated pre-privatisation or didn't you do those calculations pre-privatisation?

Mr Wilson: We wouldn't have done those calculations.

Senator XENOPHON: What is it now?

Mr Wilson: The return on equity?

Senator XENOPHON: Yes.

Mr Wilson: I will have to take the exact number on notice.

Answer:

Return on equity can be influenced by accounting policies, asset write downs, and the absolute level of capital – all of which can change.

Medibank does not have a predetermined target for accounting measures such as return on equity.

Net margin, earnings per share, and return on equity are financial measures, but achieving strong, long-term performance stems from our consistent focus on delivering value to our customers.

Medibank anticipates a headline return on equity of around 27 per cent for the 2016-17 financial year.

To illustrate how this could change with differing measurement, if asset write-downs and investment portfolio adjustments are considered, then the return on equity will be around 22 per cent.

Further, the equity paid for by Medibank's shareholders at the initial public offering is not reflected in our financial statements, which was a direct result of the way the Government sold Medibank. If this equity was taken into consideration, then the return on equity would be 7.7 per cent.

Our 2016-17 financial results will be announced on 25 August 2017.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 37, 5 July 2017

Senator: Xenophon

Question:

**Senator XENOPHON:** How is the charge calculated? How does it compare, for instance, to the IHPA [Independent Hospital Pricing Authority] bed costs calculated for a public hospital?

**Mr Wilson:** The calculations in terms of what is paid for an episode of care are done using DRG funding systems—diagnostic-related groups. We fund on a case mix, which is similar to what is now in place in the public system. The cost for private hospital beds will generally be lower than the public hospitals—and I am happy to provide more detail on this, Senator. The reason is that there is some complexity around the type of case mix—the severity of conditions—which all add to the actual cost. It is not done on an occupancy of a bed; it is done on the cost of a case.

Answer:

One way private hospitals are paid is on an episodic basis, which means that all of the hospital costs associated with the acute episode (which has a relative weighted price) are bundled into a single price for a specific course of treatment. This is determined by averaging industry costs for groups of procedures.

Importantly, this process does not determine what the efficient price should be as it is an average and does not account for waste or low value care.

There are some exceptions for extreme or unusual cases where greater or lesser payments are made to allow the actual cost and price paid to be better reflected. An example is where an additional payment is made when a patient requires treatment in intensive care.

There are a few services (e.g. rehabilitation and psychiatry) which have a greater level of variability due to patient factors and as a result are often funded on a *per diem* basis. This effectively means paying a set fee for each day a patient is in a hospital. The daily fee is also negotiated and adjusted over time.

In terms of how the price paid for the bundle is determined, this is typically based on a historically negotiated rate and, over time, the rate is periodically indexed to reflect a variety of cost factors.

There are not the same explicit adjustments made to prices based on remoteness area of the private hospital or the Indigenous status of the patient that IHPA applies in their pricing.

Moreover, IHPA costs for public hospitals are not directly comparable to private hospitals as the bundle is made up of different services. IHPA's determination of public hospital costs include costs for medical specialist services, diagnostic services and medical devices (prostheses), but these are excluded from bundled payments to private hospitals and paid separately.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 37, 5 July 2017

Senator: Xenophon

Question:

**Senator XENOPHON:** I know that Medibank has new processes for identifying complications following hospitalisation. I think you may have been in the room when I asked hirmaa a similar question. This involves not paying hospitals for care following complications that could have been prevented, unless the hospital demonstrates that it meets the clinical guidelines. What is the budgeted savings amount for Medibank for this initiative?

**Mr Wilson:** Again, I will take the exact number on notice. We will provide that. It is not a large number. We were not doing that initiative for financial reasons. We were doing it to improve the quality of care for our members.

Answer:

It is firstly important to clarify the position regarding Hospital Acquired Complications (HACs). A HAC is an event that occurs in hospital post admission.

Medibank always pays the hospital for an admission for which a member has cover.

However, under its contracts with many private hospitals Medibank has agreed that if a patient suffers from a HAC during an admission and that complication adds to the cost of the hospital stay (i.e. the hospital's charge is more expensive than expected) then Medibank, following an initial internal review, may ask the hospital to demonstrate that it had in place all appropriate processes to avoid the complication.

Where the hospital cannot demonstrate that all appropriate processes were in place, Medibank does not pay the additional costs associated with the complication (and does not allow the hospital to pass the costs on to the patient). The hospital is able to seek an external review if it does not agree with Medibank's determination.

To use a hypothetical example, if a hospital charge for an uncomplicated hip replacement is \$20,000, but due to the HAC (and associated increased complexity) the charge increases to \$25,000, Medibank will only pay the underlying charge of \$20,000 where the hospital cannot demonstrate that it had in place all appropriate processes to avoid the complication.

We have an agreed process in place with hospitals that enables an internal and, if required, external review to be conducted of the processes that were followed when a HAC occurs.

Importantly, under our contracts with hospitals, the hospital is not permitted to charge the additional costs (\$5,000 in this case) to the patient.

These HAC clauses were not put in place by Medibank for financial reasons. They were instigated on the basis that there would be a reduction in the number of HACs occurring and therefore achieving better outcomes for patients.

Independent research in Australia has found that HACs occur in 1 in 10 overnight hospital admissions. Evidence from the US (Centres for Medicare and Medicaid) demonstrate that when a focus on HACs is supported by financial implications for hospitals, it can lead to a material reduction in the occurrence of HACs.

The financial implications need not be significant. In 2016-17 the value of recoveries by Medibank from HACs amounted to \$1.29m before risk equalisation.

We have, however, seen significant reductions in the occurrence of HACs in the process.

We are also pleased to see that the Independent Hospital Pricing Authority (IHPA) will instigate a similar HAC regime in the public system, which we believe is testament to the validity of our industry leading initiative in this area.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 40, 5 July 2017

Senator: Dastyari

Question:

**Senator DASTYARI:** ...In a typical quarter, though, what would people normally be complaining about? I don't quite understand how it gets to a situation when they escalate away from Medibank. Putting aside what you're calling a one-off growth because of an IT issue, what are the types? You must have some kind of data. Is it normally just unhappiness or grumpiness? What is it that takes people to complain to the Ombudsman?

**Ms Venetico:** There are various issues, and we can provide more information to the committee on that, but some issues—

**Senator DASTYARI:** Can you take that on notice. I'm very conscious of time.

**Ms Venetico:** Absolutely.

Answer:

Medibank is committed to bringing our Private Health Insurance Ombudsman complaints below our market share by December 2017.

The latest data from the Ombudsman shows we have shifted complaints from 61 per cent of the market in September 2016 to 48 per cent in December 2016, 37.8 per cent in March 2017, and 35.6 per cent in June 2017.

This progress has resulted from not only improvements in our customer service and offering, but also our internal process for handling complaints.

The top complaints to the Private Health Insurance Ombudsman concerning Medibank are:

- Premium payment problems
- Customer service
- Claims – this includes members not receiving an expected benefit, having to wait for Medibank to process the claim
- Lifetime Health Cover Loading
- Changing funds (transfer certificate issues)

Medibank has implemented initiatives to address and reduce customer complaints below our market share levels.

Our initiatives include:

- **Increased staff numbers and training.** Medibank has recruited additional customer service staff and continue to enhance arrangements for the on-boarding and ongoing training of complaint handling staff.
- **Improved structure.** Medibank implemented an improved internal escalation path for customer complaints. This structure has enhanced visibility of what drives customer complaints, which in turn increases accountability across the business for these issues.
- **Preventions program.** Medibank established a preventions program that involved our resolutions team reviewing escalated internal complaints and maintaining a systemic issues register. These issues are assigned to an owner within the business, who is accountable to take action in response.
- **Complaints management framework.** Medibank is currently delivering a documented complaints management framework that aligns to the ISO standard for complaint handling. This includes a published customer complaint handling policy and complaint surveys, which will be rolled out shortly.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 40, 5 July 2017

Senator: Xenophon

Question:

Mr Wilson: ...What we are interested in is that we employ now nearly 1,000 clinicians. We employ nurses; we employ doctors; we employ physios.

Senator XENOPHON: What's a rough breakdown of that?

Mr Wilson: We could give you the exact numbers, but roughly 500 nurses, 120 to 130 doctors, nearly 300 physios and then some other allied health professionals.

Answer:

Medibank employs 1,160 health practitioners, as follows:

<b>Medical Practitioner Category</b>	<b>Total</b>
Dentists	23
Dental practice managers/hygienist/officer	26
Nurse	493
Pharmacist	21
Clinician other (Physicians, DR's etc)	99
Physiotherapist	156
Psychologist	7
Mental Health Professionals (counsellors etc)	148
General Practitioner	25
Dietician	6
Occupational Therapist	122
Podiatrist	34
<b>Total</b>	<b>1,160</b>

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 41, 5 July 2017

Senator: Xenophon

Question:

**Senator XENOPHON:** I just want to follow in terms of what you indicated before about some of the programs for chronic illnesses. Can you provide data for the committee in a summary form? I think that would be very useful.

**Mr Wilson:** Absolutely.

Answer:

Medibank is investing over \$20 million per annum in our CareComplete programs to improve chronic disease management, collaborating with more than 3,600 GPs to reduce avoidable hospitalisations for people with chronic and complex health needs.

The programs are the first of their kind at scale with good uptake and feedback from patients and GPs alike.

In terms of results, the programs are delivering excellent health outcomes and experiences for patients.

For example, graduates from the CareFirst program have demonstrated positive trends in all clinical indicators, with significant improvement in blood pressure, physical activity, waist circumference, health-related quality of life and decreased risk of hospitalisation. Changes in blood pressure were equivalent to commencing an anti-hypertensive medication.

Participants are also reporting improvements in their confidence to manage their health condition and appreciated the access and time spent with a broad range of health professionals.

# MEDIBANK – ANSWERS TO QUESTIONS ON NOTICE FROM THE INQUIRY INTO THE VALUE AND AFFORDABILITY OF PRIVATE HEALTH INSURANCE

Type of Question: Hansard page 42, 5 July 2017

Senator: Xenophon

Question:

Senator XENOPHON: Going back to the issue of surveying your members about their experiences in hospital, you do surveys of that?

Mr Wilson: We do—yes.

Senator XENOPHON: Can you provide us details of that? That would be quite helpful.

Mr Wilson: Yes. We can provide details.

Answer:

Medibank uses a standardised Patient Reported Experience Measures Survey (PREMS) to assess the hospital experience of our customers.

Medibank began asking our customers about their hospital experience in November 2016.

The PREMS contains 31 questions and measures a range of interactions the patient has with a hospital, such as: staff responsiveness, cleanliness, quietness, and care transition arrangements.

Patients who experience a Medibank-funded overnight stay in an acute hospital (and who prefer to receive email communications from Medibank) receive a PREMS six weeks after discharge.

The PREMS records patient experience only – it does not measure cost or outcome – and so it is only one measure, albeit an important one, that Medibank shares with hospitals regarding their performance.

Medibank is gathering PREMS data to better understand our customers' preferences, needs, and values when undergoing acute hospital treatment.

Medibank uses PREMS data to work with our partner hospitals to continuously improve patient experience. Our focus is to ensure our customers have the best possible healthcare experience.

Given most of Medibank's customers are treated in private hospitals, approximately 90 per cent of our PREMS responses are from patients who were treated in a private hospital, which is reflected in the data overleaf.

The PREMS data is preliminary given the relatively short duration of our survey work to date and has not been adjusted based on casemix (the types of patients a hospital sees and the types of treatments it offers).

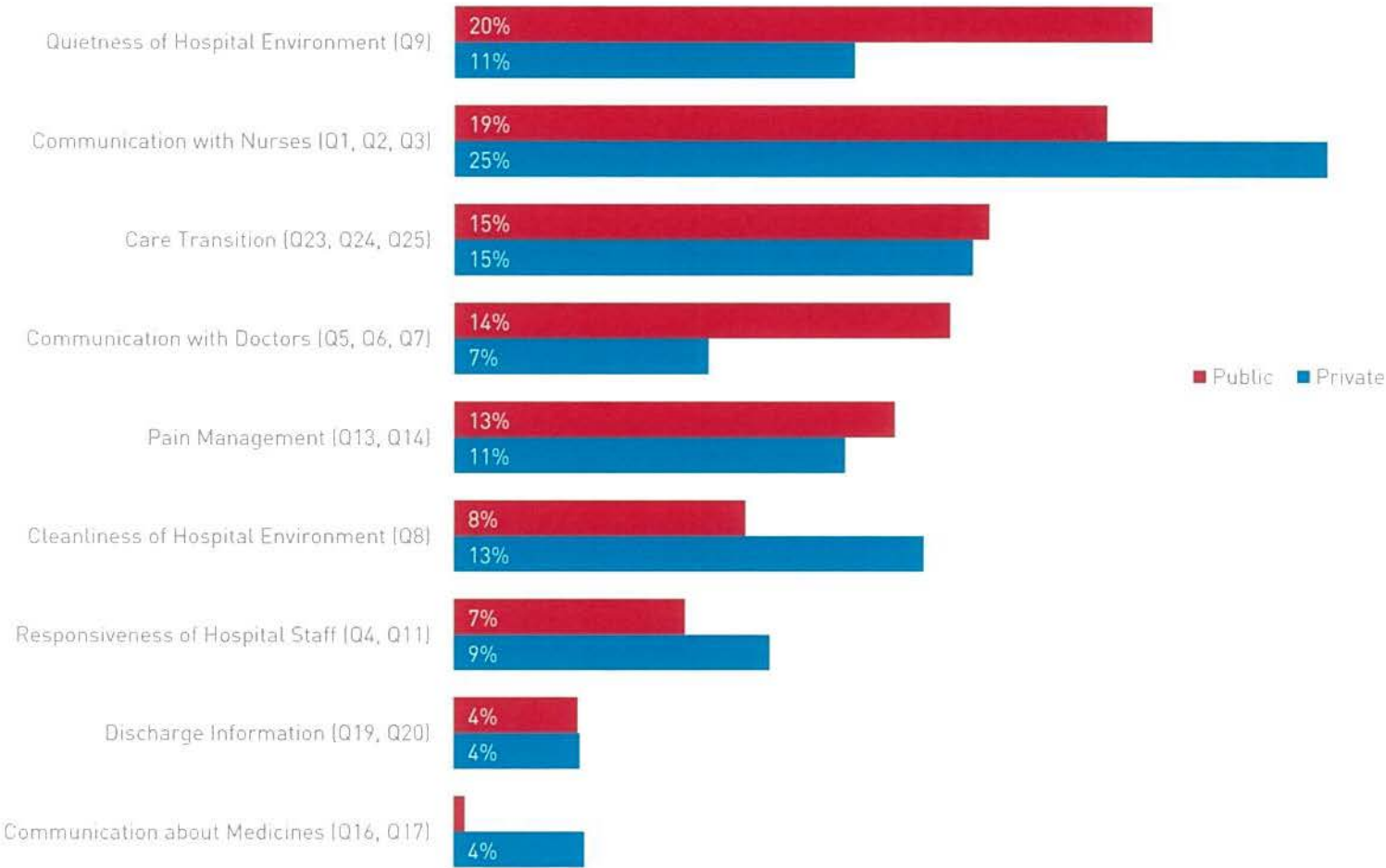
Preliminary analysis of the data indicates that the casemix for private patients treated in a public hospital is often more complex, or the care required is more urgent, which can impact the patient's response to PREMS.

The graph [Attachment #1] and data [Attachment #2] overleaf demonstrate that, for Medibank's customers, in public and private hospitals:

- When choosing an overall rating for the hospital they attended, communication with nurses is more important to patients in private hospitals than to those in public hospitals.
- When choosing an overall rating for the hospital they were treated in, Medibank patients treated in a public hospital said the quietness of the hospital environment was the most important factor.
- Other important factors when choosing an overall rating for the hospital they were treated in included pain management and care transition.

Attachment #1: Summary of Key Findings from Medibank PREMS data

Hospital Rating Drivers



## Attachment #2: Medibank PREMS National Data

Relating to admissions between 27 July 2016 and 21 July 2017

### Response summary

• Higher result • Lower result

	All data	All Private	All Public	
	<b>11040</b>	<b>9857</b>	<b>1183</b>	
	82%	82%	78%	say nurses always treated them with courtesy and respect
	69%	70%	60%	say nurses always listened carefully
	71%	72%	63%	say nurses always explained things in a way that was easy to understand
	56%	56%	51%	say they always received help as soon as they pushed the call button
	88%	89%	78%	say doctors always treated them with courtesy and respect
	81%	82%	69%	say doctors always listened carefully
	79%	80%	66%	say doctors always explained things in a way that was easy to understand
	77%	79%	62%	say the room and bathroom were always kept clean
	48%	50%	32%	say the area around their room was always quiet at night
<i>Of all survey respondents,</i>	35%	35%	34%	<i>needed help getting to the bathroom or using a bedpan</i>
	59%	61%	48%	of those needing help say they always got help getting to the bathroom or using a bedpan as soon as they wanted
<i>Of all survey respondents,</i>	70%	72%	60%	<i>needed medicine for pain relief</i>
	67%	68%	54%	of those who needed medicine for pain say their pain was always well controlled
	79%	80%	70%	of those who needed medicine for pain say hospital staff did all the could to help with the patient's pain
<i>Of all survey respondents,</i>	50%	50%	57%	<i>had a new medicine during their stay</i>
	71%	72%	65%	of those who were given a new medicine felt that hospital staff always told them what the medicine was for
	46%	46%	41%	of those who were given a new medicine felt that hospital staff described possible side effects in a way that was easy to understand?
<i>Of all survey respondents,</i>	94%	95%	88%	<i>discharged to their own home or someone else's home</i>
	82%	82%	79%	of those going to their own home or someone else's home say doctors, nurses or other hospital staff talked with them about whether they would have the help they needed when they left the hospital
	73%	74%	66%	of those going to their own home or someone else's home say they received information in writing about what symptoms or health problems to look our for after they left the hospital
	60%	62%	46%	rated their overall stay as 9 or 10 out of 10
	70%	72%	55%	say they would definitely recommend the hospital to family and friends
	94%	94%	90%	say they would recommend the hospital to family and friends (definitely + probably)
	36%	37%	28%	strongly agreed that staff took their preferences and those of their family or caregiver into account in deciding what their health care needs would be when they left
	50%	52%	40%	strongly agreed that they had a good understanding of the things they were responsible for in managing their health
	55%	57%	46%	strongly agreed that they clearly understood the purpose for taking each of their medications