

**Submission by Private Health Insurance Ombudsman to Senate Standing  
Committee on Finance & Public Administration in relation the Medibank  
Private Sale Bill 2006**

**Background**

There are thirty-seven registered health funds operating in Australia. Twenty-three are “open membership” funds – open to any Australian resident to join. The remaining fourteen funds are “restricted membership” funds.

The majority of Australian registered health funds are not-for profit. Four funds are for-profit organisations. They are Australian Unity (3.2% market share), Bupa Australia (9.9% market share), Grand United Corporate Health (1.9% market share) and MBF Alliances (MBF Health, 2.2% market share). (Please note that MBF Australia is a not-for-profit fund.)

These funds aim to return a dividend to their owners or shareholders, but must still meet the solvency and capital adequacy requirements applying to all funds. For-profit funds do not benefit from a range of tax exemptions available to not-for-profit organisations. However, they do have more options for raising capital than not-for-profit funds.

**Performance of for-profit and not-for-profit funds**

The incidence of complaints to the Ombudsman does not demonstrate any significant difference between the level and type of complaints by members of for-profit versus not-for-profit funds.

In the annual “State of the Health Funds Report”, the Ombudsman examines a range of indicators to measure fund performance, including member retention, complaints, average cost and benefit, gap schemes and management expenses. Based on these indicators, the Ombudsman does not consider it possible to conclude that for-profit funds perform significantly better or worse than not-for-profit funds.

In general, whether a fund is for-profit or not for-profit has very little impact on the Ombudsman’s dealings with the fund. In the case of Medibank Private, the most significant issue affecting the Ombudsman’s relationship with the fund is its size. Because Medibank Private is currently the fund with the largest market share, the number of complaints to the Ombudsman from Medibank Private members is higher than for other funds. However, the overall percentage of complaints from Medibank Private is below its market share and its complaint level is considered reasonable for its size.

**Ombudsman’s Role in Medibank Private Sale**

The Ombudsman’s key role is to protect the interests of people who are covered by private health insurance. If consumers experience problems arising out of the sale of Medibank Private, it is likely that this would be reflected in higher complaint levels to

the Ombudsman. The Ombudsman would therefore be in a position to monitor and respond to issues affecting consumers following the sale.

The Ombudsman is empowered to investigate complaints and report or make recommendations to funds following an investigation. The Ombudsman is also able to report and make recommendations to the Minister or Department of Health & Ageing in relation to the practices of a health fund.

The Government has stated that one of its objectives for the sale of Medibank Private is to maintain service and quality levels for Medibank contributors, including in regional and rural Australia. The Ombudsman will be monitoring the sale process and any complaints to the office to help ensure this objective is met.

The Government has also stated that one of its objectives for the sale of Medibank is to contribute to an efficient, competitive and viable private health industry and the Ombudsman is supportive of this aim.

### **Consumer Protection in relation to Premium Increases and Fund Rule Changes**

There are already a number of safeguards currently in place under legislation to protect health fund members. If the sale of Medibank Private is approved by Parliament and it becomes a for-profit fund, the fund will still be required to comply with these requirements.

The *National Health Act 1953* requires that health funds must submit details of proposed premium increases to the Commonwealth Minister for Health before they can increase premiums on any of their products. In their submissions, funds must provide detailed financial information and cost and benefit projections to justify any increases they seek. An accredited professional actuary must have certified this information.

The proposed increases are examined by the Department of Health and Ageing and by the Private Health Insurance Administration Council (PHIAC). PHIAC is the independent financial regulator of health funds. PHIAC has the power to require funds to report on their finances and operations and can independently audit fund finances.

The Minister may disallow an increase if the fund is not able to provide sufficient information to demonstrate to the Department, PHIAC and the Minister that the increases are necessary to meet their obligations to pay benefits to eligible contributors.

Health funds must also notify the Department of Health & Ageing of non-premium rule changes before the change comes into effect in the format provided by the Rules Application Processing System.

The onus is on funds to ensure that all rule changes comply with the *National Health Act 1953*.

Health funds must also take all reasonable steps to advise affected contributors of detrimental changes before the change comes into effect in terms that consumers can understand.

The Ombudsman has in the past provided advice to funds on what constitutes a reasonable period of notice in relation to non-premium rule changes. A reasonable notice period will depend on the nature of the proposed change, but will usually vary between two and six months. Medibank Private has complied with the Ombudsman's advice in relation reasonable notice periods in the past.