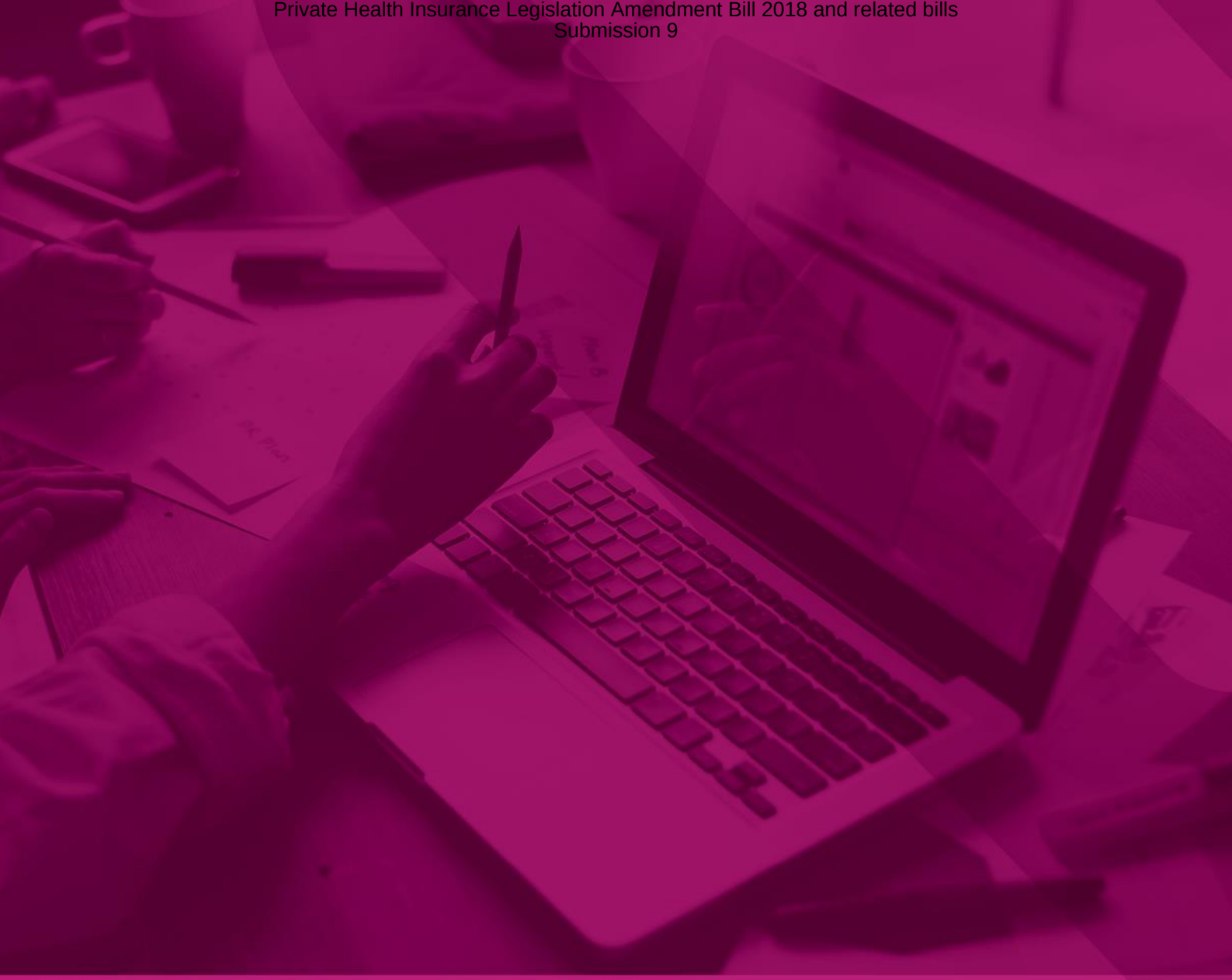

Members Health Fund Alliance

Submission to Senate Inquiry into Private Health Insurance Legislation Amendment Bill 2018 and related Bills

Date: 18/07/2018

Members Health FUND ALLIANCE

Putting members' health before profit

Members Health
FUND ALLIANCE

TABLE OF CONTENTS:

Members Health
FUND ALLIANCE

INTRUDUCTION:

Members Health funds make up 23 of the 37 registered private health insurers and share one or more of the following attributes; being not-for-profit, member owned or community based. Combined, Members Health funds provide health cover to more than 1.7 million Australians.

We welcome the opportunity to contribute to the Senate Inquiry into Private Health Insurance Legislation Amendment Bill and related Bills.

Members Health funds provide highly valued services to regional communities and key industry groups, including military families, teachers, police, nurses and midwives, transport, mining and doctors. Regional communities where Members Health insurers are headquartered include Townsville, Lithgow, Wollongong, Newcastle, Latrobe Valley, Launceston, Burnie and Mildura.

Members Health and the broader private health insurance industry has been actively consulted in the development of government reforms enabled by proposed legislation contained in the following Bills:

- A New Tax System (Medicare Levy Surcharge-Fringe Benefits) Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018.
- Medicare Levy Amendment (Excess Levels for Private Health Insurance Policies) Bill 2018.
- Private Health Insurance Legislation Amendment Bill 2018.

The overarching intent of those reform initiatives facilitated by each of these Bills is to improve the value and affordability of private health insurance for Australian consumers.

Members Health has been broadly supportive of the reform agenda outlined by the government to date, and we support all appropriate efforts to encourage Australians to access to high quality health insurance products.

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OUR FUNDS:

rt health FUND
st.lukeshealth
Phoenix Health Fund
Defence Health
Latrobe HEALTH SERVICES
doctors health fund an Avant company
healthcare insurance
TUH It's my health fund
Mildura HEALTH Fund
WESTFUND HEALTH Insurance
TEACHERS HEALTH We're for teachers
Queensland COUNTRY HEALTH FUND
Health Partners
ACA HEALTH BENEFITS FUND
Peoplecare
Police Health
rbhs reserve bank health society simply better benefits
HUNTER HEALTH INSURANCE By CDH BENEFITS FUND
CBHS HEALTH FUND
NAVY HEALTH
NURSES MIDWIVES HEALTH Caring for the carers
cua Health
EMERGENCY SERVICES HEALTH
Territory Health Fund

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KEY ISSUES:

Increasing the maximum policy excess to $750 for singles and $1500 for families

The proposed adjustments to maximum excess levels represent the first such changes in 18 years, during which time the health insurance industry has endured notable cost increases, rising inflation and higher claim levels.

Having maximum excesses fixed in dollar terms means the proportion of claim costs borne by insurers has risen, resulting in higher premiums. Consequently, insurers and policyholders have increasingly had to turn to policy exclusions or restrictions as a cost-saving measure.

This reform does not alter private health consumers' ability to obtain excess-free products or for insurers to continue offering products with existing maximum excess levels.

Members Health supports choice in the health insurance market, and believes consumers should be trusted to select the right balance of premium and excess to suit their needs, budgets and health expectations.

Given the aforementioned increase in health costs, higher maximum excesses are sure to provide that choice, whichever way the consumer opts to tailor their policy. This flexibility is also likely to appeal to younger people who may be generally healthy but fear sustaining a high-cost accidental injury for which a higher excess remains reasonable (i.e. a sports injury).

Discounts to younger consumers

Private health insurance relies on a system of Community Rating in which younger, healthier members cross-subsidise older members who are more likely to claim benefits. If younger people continue to leave the system, private health insurance will become more expensive, thus exacerbating affordability further and potentially driving more people out.

This potential trend could drive many people into the public health system and onto already overstretched public hospital waiting lists.

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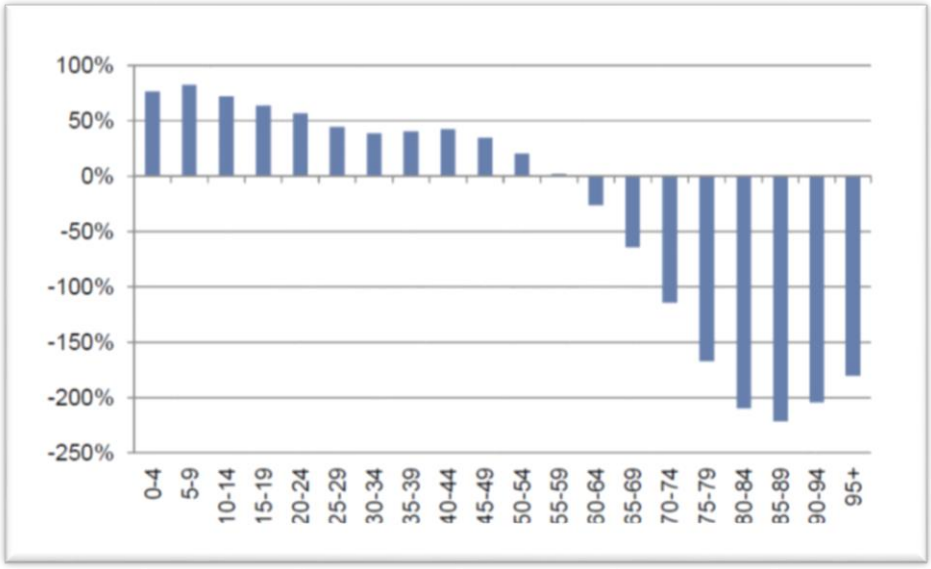
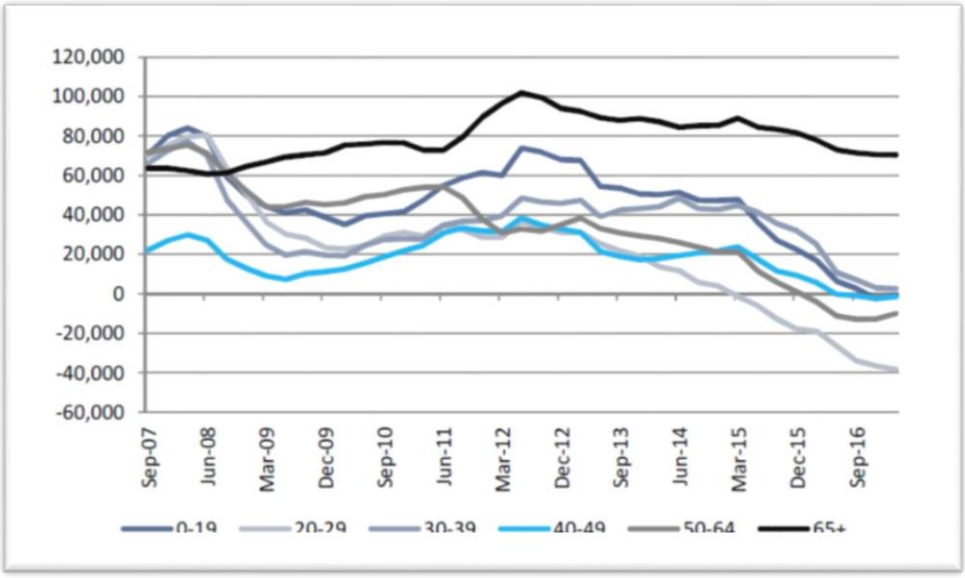
With affordability widely recognised as a major cause for some Australians to exit the private health insurance system, Members Health supports any initiative that seeks to reduce consumer costs and encourages accessibility for younger people.

Cross-subsidisation of policy holders (5 year average)



Source: APRA data prewpared by Goldman Sachs

Trends in policy holder age



Source: APRA data prepared by Goldman Sachs

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The reform allows insurers to terminate products and transfer all people covered by those products into new policies

Presently there are about 75,000 private health insurance policies in the market. Under the existing legislative framework, private health funds can close access to existing policies for new members and transfer existing policyholders of terminated products into new products.

Meanwhile, all relationships in the private health insurance industry, including member transfers, are governed by the statutory protections offered to consumers by the Competition and Consumer Act, including the Australian Consumer Law. These include relationships between consumers and health insurers, hospitals, medical facilities, health providers and practitioners[1].

The application of these oversights are actively monitored by the Australian Competition and Consumer Commission (ACCC), which presents an annual report on private health instance to the Australian Senate. This provides a significant degree of oversight to the industry, particularly with regards to insurer transparency towards consumers and policy changes.

Health funds' ability to cease existing policies is part of a voluntary and informed business decision-making process, which requires that consumers are fully aware of their options in such a circumstance. The process must be conducted in a manner consistent with ACCC expectations and requirements, and should rightly remain so.

New powers to the Private Health Insurance Ombudsman

Members Health has a strong working relationship with the Private Health Insurance Ombudsman. Our funds also perform strongly against key data released in the PHIO's annual report, including that Members Health funds as a group receive fewer complaints than the remainder of the combined industry.

In the most recent PHIO quarterly report, released May 2018, Members Health funds, which account for 12.6 per cent of industry, received just 9.9 per cent of total complaints.

With this in mind, Members Health sees no compelling need for the Private Health Insurance Legislation Amendment Bill 2018 (the Bill) to grant the PHIO powers to enter the premises of a private health insurer without consent or warrant.

[1] Private Health Insurance Ombudsman: Private Health Insurance Report 2016-17.

Members Health FUND ALLIANCE

The PHIO's principal objective is to assist people who have made complaints relating to private health insurance. The proposed sections 20SA and 20TA – in effect – amount to a power of warrantless search and seizure, which would appear excessive.

Furthermore, the Attorney-General's department states that the *Guide to Framing Commonwealth Offences* specifies that powers of entry and search without a warrant are only appropriate in 'exceptional circumstances'[2] and require 'compelling justification'.[3] Examples include 'situations of emergency, serious danger to public health, or where national security is involved.'[4]

With Members Health funds' high performance in providing positive outcomes for consumers, both in PHIO reports and external research showing a 96 per cent policyholder satisfaction rate[5], unless 'compelling justification' is identified and subject to parliamentary scrutiny, we encourage the provisions be amended in line with the *Guide to Framing Commonwealth Offences,* or removed from the Bill altogether.

[2] Attorney-General's Department, *A Guide to Framing Commonwealth Offences, Infringement Notices and Enforcement Powers*, September 2011, p. 86.
[3] Attorney-General's Department, *A Guide to Framing Commonwealth Offences, Infringement Notices and Enforcement Powers*, September 2011, p. 76.
[4] Attorney-General's Department, *A Guide to Framing Commonwealth Offences*, Infringement Notices and Enforcement Powers, September 2011, p. 86.
[5] Members Health Media Release: Members Health funds record 96% satisfaction

Members Health
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ABOUT MEMBERS HEALTH FUNDS

There is a notable difference between for-profit health insurers and not-for-profit, member owned health insurers represented by Members Health.

Members Health funds make up 23 of the 37 registered private health insurers and share one or more of the following attributes, being: Not-for-profit; Member owned; Regional or community based. Combined, Members Health insurers provide health cover to over 1.7 million Australians nation-wide.

Members Health funds a very highly valued service to key communities of interest spanning regional populations and industry groups, including: Military families; Teachers; Police; Nurses and Midwives; Transport; Mining and Doctors. Regional communities in which Members Health insurers are headquartered include: Townsville; Lithgow; Wollongong; Newcastle; Latrobe Valley; Launceston; Burnie and Mildura.

The data supplied by APRA, the Commonwealth Ombudsman and independently run surveys all consistently points to the Members Health funds as being the success story of the health insurance industry. On average they provide highly competitive policies with lower than average premium increases, offer excellent customer service, valued products and are intimately connected to their communities of interest.

Members Health funds have consistently experienced average policyholder grow that is much faster than the rest of the industry. They also experience much higher policyholder retention rates. If it were not for the superior performance of the Members Health funds, participation in private health insurance would be much lower than it is today, highlighting the importance of the not-for-profit, member owned and community based health funds to the ongoing sustainability of private health insurance.

Recognising the importance of value for money, on average Members Health funds have achieved smaller premium increases over the past five years than the rest of the industry. All Members Health funds operate on narrow margins. Notably, several Members Health funds operate on premiums that have a net negative margin, making a small profit only after accounting for returns on investments.

Members Health funds also lead in terms of customer satisfaction. Independent research by Discovery Research showed a customer satisfaction level of 96% amongst the over 21,000 consumer responses received in 2018.

It is clear that without the superior performance, diversity and competition provided by Members Health funds, Australian consumers and the private health industry as a whole would be significantly worse off in terms of both participation levels, cost and the quality of private health insurance.

Attached is a snapshot benchmarking the performance of the Members Health funds across a range of industry metrics.

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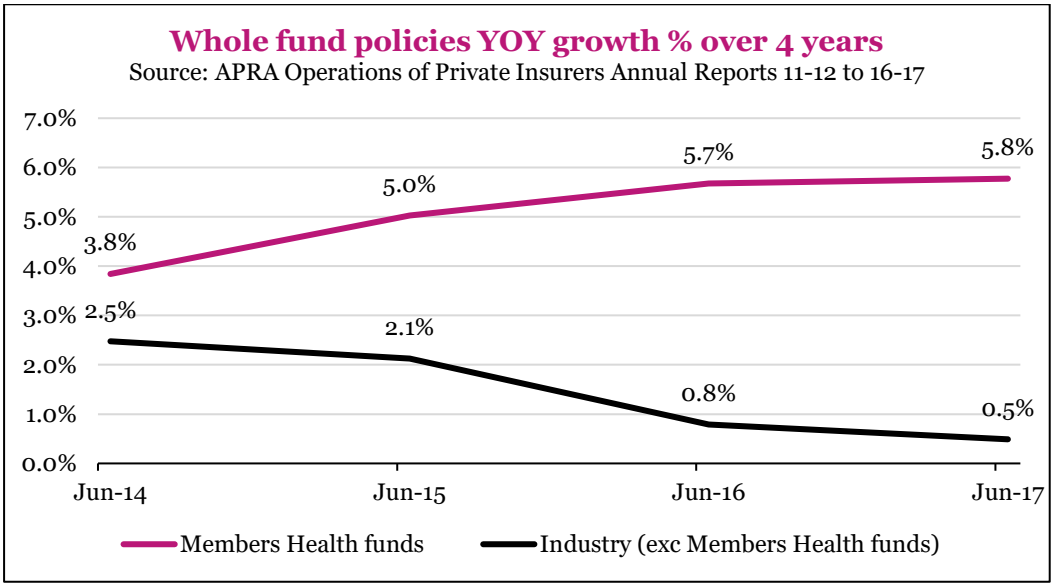
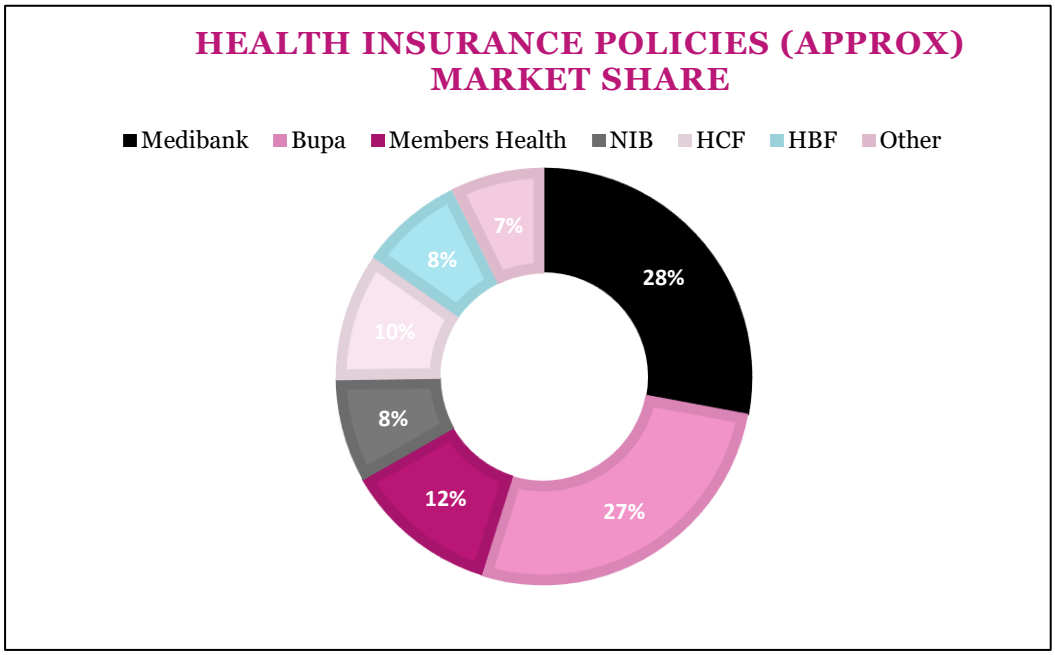
FUND ALLIANCE

Higher levels of growth than industry average

Policyholder growth has for many years been well above the industry average, highlighting that consumers are increasingly recognising the superior value proposition of the not-for-profit, member owned and community based health insurers. Today Member Health funds accound for 12% of the private health insurance industry.





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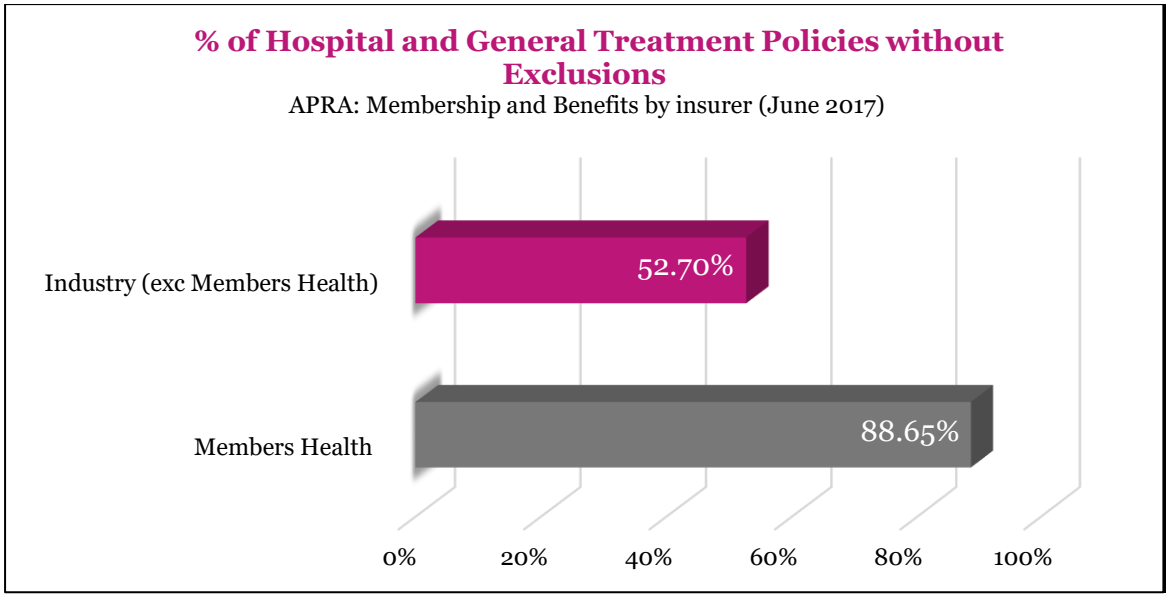
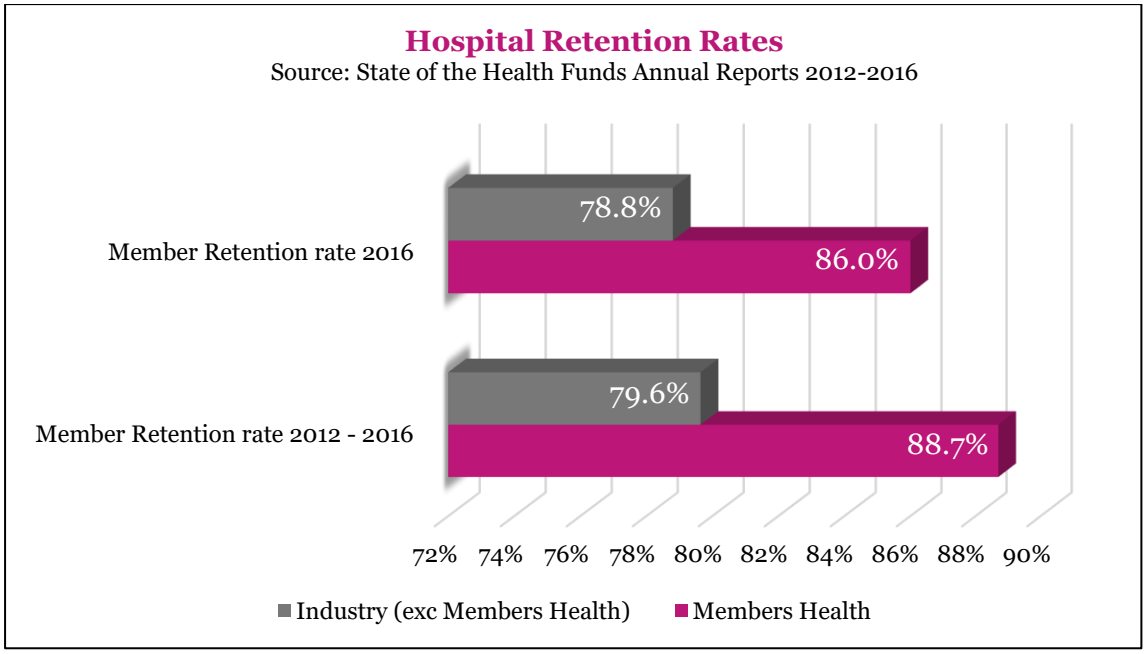
Members Health funds have fewer exclusionary policies

Industry data indicates that Members Health insurers are leaders when it comes to high cover polices. The overwhelming majority of policies provided by Members Health funds are free of exclusions.



High rates of customer retention with Members Health funds

Customer retention rates that are significantly higher than the industry average, further highlights the strong customer perfomance of Members Health funds.



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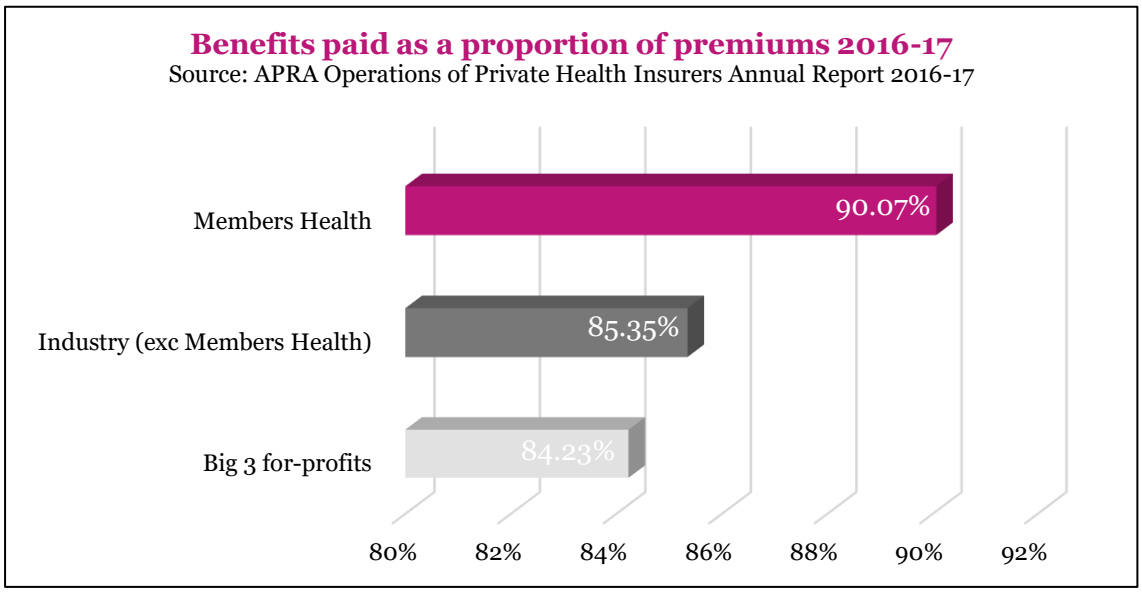
Higher proportions of premiums go to benefits for consumers

Members Health funds are unashamedly customer centric in their ethos. They return on average around 90 per cent of all premiums paid, back to policyholders, as benefits. This is in contrast to the for-profit insurers, which operate primarily for the benefit of shareholders and return on average around 85 per cent.



High levels of customer satisfaction

Members Health funds consistently experience very high levels of customer satisfaction. This is reflected through the Discovery Research customer satisfaction survey, which has been running for the last 12 years and is conducted independently.

Participating Members Healthfunds have consistently recorded over **97 per cent customer satisfaction** rates among their policyholders. In 2017 over 15,000 survey responses were received from policyholders.

Members Health fund membership satisfaction

Overall Member Satisfaction **Overall, how satisfied are you with your health fund membership?**	**2018: 96% satisfied**

Source: Discovery Research 2018

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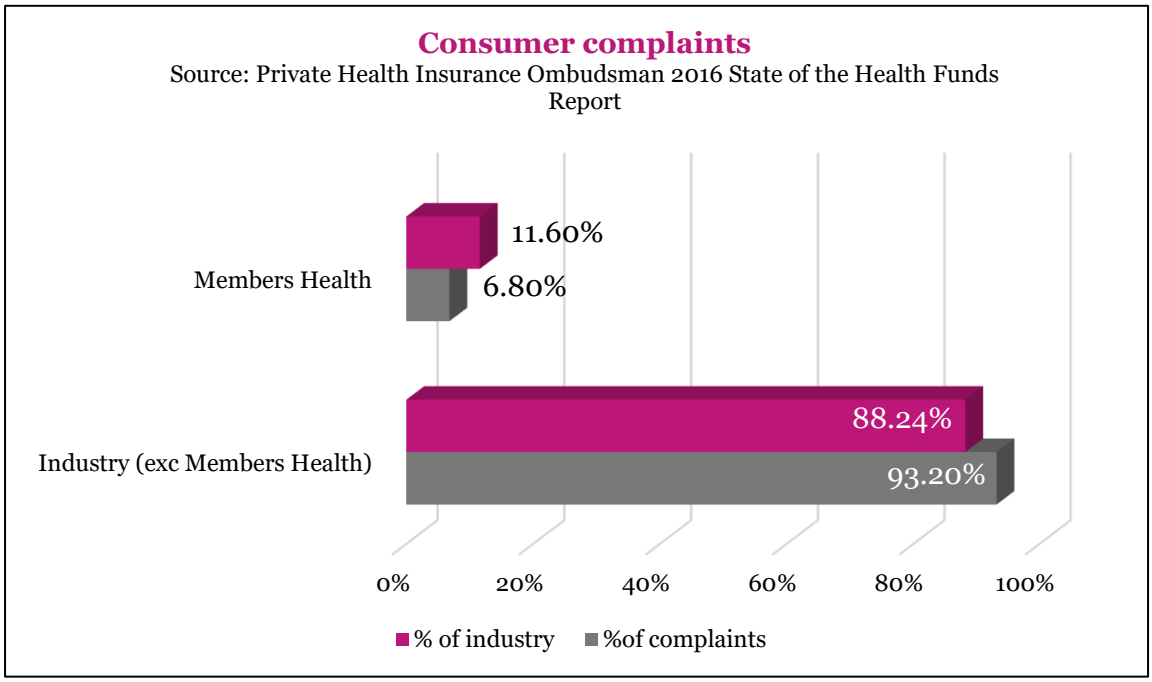
Commonwealth Ombudsman statistics reinforce the customer centric ethos of Members Health funds

Commonwealth Ombudsman figures show that while funds belonging to Members Health represent around 10 per cent of the market, they account for less than 5 per cent of all complaints received in 2015-16 by the Commonwealth Ombudsman relating to health insurance products and service.



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