



Health Insurance Restricted
Membership Association of Australia

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23 August, 2006

Mr Tim Holland
Acting General Manager
Mergers and Asset Sales Branch
Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

Facsimile : 02 6243 1212

Dear Mr Holland

Proposed sale of Medibank Private

I refer to your request for submissions regarding the Federal Government's proposal to sell Medibank Private Ltd.

By way of introduction, HIRMAA is a peak industry body representing all fourteen restricted membership health benefit organizations (Attachment A).

Since its formation in 1978, HIRMAA has advocated for the preservation of competition, believing it to be fundamental to Australians having access to the best value health care services. HIRMAA has done this by:

- promoting legislation, regulations, policies and practices which increase the capacity of its member organizations to deliver best value health care services; and,
- vigorously resisting the efforts of those who seek to gain by concentrating the provision of private health insurance (PHI) into the hands of a few large organizations.

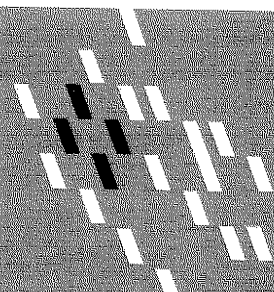
A number of characteristics distinguish the HIRMAA member funds. They:

- are value-based as opposed to being profit-based;
- continue to offer various levels of insurance at highly competitive premiums;
- optimize benefit entitlements and premiums;
- continue to tangibly grow their membership numbers in contrast to the overall industry trend which remains static;
- have their unique nature acknowledged in Part 1, Section 4 of the *National Health Act 1953*.

www.hirmaa.com.au

President – Mr John Rashleigh, Navy Health

Executive Director – Mr Ron Wilson



HIRMAA's position is that the Government should divest its interest in Medibank Private by a public offer of shares.

A public float would maintain industry stability and ensure that the largest provider of private health insurance remains primarily focused on that as its core business.

The problems with a sale to one or more financial conglomerates and/or to existing health insurers are discussed below.

Problems with sale to one or more financial conglomerate

A financial conglomerate would most likely see most profit potential in selling a comprehensive range of financial products to Medibank Private clients. Almost half the population is covered by private health insurance, partly due to various Federal Government initiatives which are justified on the basis that private health insurance promotes the use of the private health care system and therefore reduces the demand on the public system. HIRMAA does not believe it appropriate that such Government initiatives ultimately serve the purpose of enabling financial conglomerates to sell products, which are completely unrelated to the Government's initiatives, to persons whose relationship with the conglomerate was established partly as a result of those initiatives.

Problems with sale to one or more health insurer

Currently, two insurers account for the majority of private health insurance membership in each state. State markets are already oligopolistic in character. It is in the community's interest to reduce and certainly not to increase the opportunity for the abuse of market power.

There is enormous scope for insurers being selective in covering risks. Indeed, the opportunity to be selective will increase with the introduction of the Government's policy decision to introduce *broader health cover*. The deterrent to insurers selecting risk and thereby reducing the appeal of private health care as an alternative to the over-burdened public system is the threat of niche health insurers gaining a competitive advantage by offering cover over risks not likely to be selected by insurers in the absence of such a competitive threat. Further concentration of insurers would most likely result in greater risk selection, reduce the appeal of PHI and increase the demands on the public system. This would not be in the community's interest.

Broader health cover is a manifestation of the Government's objective of increasing the relevance and appeal of private health insurance. Fully realizing the Government's objective will require product innovation and based on the experience of other industries, concentration is likely to increase price-based competition and reduce innovation.

Participation in event of sale to other insurers

Although not the preferred option, in the event that Medibank Private is offered to existing insurers, HIRMAA member organizations would expect to be invited to bid.

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In conclusion, HIRMAA supports the Federal Government's stated objectives that the sale of Medibank Private should contribute to an efficient, competitive and viable private health insurance industry. We trust that our comments are seen as promoting those objectives.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Wilson', followed by a long horizontal line extending to the right.

RON WILSON
Executive Director

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Attachment A

ACA Health Benefits Fund

CBHS Friendly Society Ltd

Defence Health Ltd Ltd

Doctors' Health Fund

Health Care Insurance Ltd

Lysaght Peoplecare Ltd

Navy Health Ltd

Phoenix Health Fund Ltd

Queensland Teachers' Union Health Fund Ltd

Railway & Transport Health Fund Ltd

Reserve Bank Health Society Ltd

South Australian Police Employees' Health Fund Inc

Teachers Federation Health Ltd

Transport Health Pty Ltd