



Wednesday 1 July, 2009

Chief Executive Officer
The Private Health Insurance Administration Council
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Dear Mr Gath

RE: The application by Medibank Private Limited for approval to convert to being “registered as a for profit insurer”

The Community and Public Sector Union (CPSU) is an active and progressive union committed to the promotion of modern, efficient and responsive public and community sectors that deliver quality services and quality jobs. We represent around 60,000 members in the Australian Public Service (APS), ACT Public Service, NT Public Service, ABC and the CSIRO. We also have members in Telstra, Medibank Private, the telecommunications industry and the community services sector.

In August 2006 the CPSU founded the ‘Save Medibank Alliance’ to provide a way for Medibank Private employees, policy holders and the broader community to speak out against the proposed sale of Medibank Private. The CPSU also made a submission to the Senate Inquiry into the Medibank Private Sale Bill 2006. Since then the CPSU has remained actively involved in campaigning for Medibank Private employees in the workplace and working to ensure that Medibank Private remains a high quality government owned, private health insurer.

Medibank Private is a very successful organisation, it was the largest private health insurer in Australia and in the financial year 2007/08 it gained 140,335 new members, an increase of 8.8 per cent. This was the highest growth for the fund in 35 years. Overall the fund has 3.2 million members and 15 major corporate clients.

The CPSU and its members are concerned about the Medibank Private application to become a registered for profit insurer. The proposed move may result in less choice for the Australian public, possible increases in premium costs, possible decreased service levels, place downward pressure on staff wages and conditions, and ultimately result in the privatisation of the fund. Before the Medibank application is approved, the Private Health Insurance Administration Council must be certain that it is in the interests of the Australian public for Medibank Private to become a for profit insurer.

The specific concerns of the CPSU and its members regarding the application from Medibank Private are outlined below:

1. Questions about the status of Medibank Private

There may be a question about who owns the assets of Medibank Private. That is, whether it is truly a mutual fund or some other form. If it is not truly a mutual fund, there are questions that need to be answered about whether there is an impact on any possible conversion of the fund to for profit. This question requires complex legal consideration. It is not something that the CPSU is in a position to provide further submissions on, but it is a question which the Private Health Insurance Administration Council must satisfactorily answer before approving the application.

2. Risks of demutualisation

There is evidence to suggest that the application to become a for profit fund is the first step in a strategy to fully privatise. In its transition to become a demutualised fund, the second biggest insurer in Australia MBF first became a for profit insurer¹. Given the MBF experience, and despite any public assurances otherwise, it is of concern that this application may be the first step for Medibank Private to become a listed, demutualised company.

If there is a need for government to expand its revenue base beyond tax receipts, any approval of the conversion to 'for profit' would need to be conditional. That is, if legally possible, conversion to 'for profit' must be limited to apply only while Medibank Private remains a mutual society.

The concerns of the CPSU and its members about any possible future privatisation of Medibank Private are detailed below.

3. Decrease in choice

Currently there are four major private health insurance providers in Australia with a combined market share of 63.3 per cent. These providers are; Medibank Private with 28.7 per cent market share, MBF with 18 per cent, HCF with 9.6 per cent and NIB with 7 per cent². Currently Medibank Private and HCF are not for profit funds while MBF and NIB are for profit. If the Medibank Private application is approved, not only will its distinction of being a not for profit fund disappear, but 3 out of the 4 major providers will be for profit, representing 53.7 per cent of the health insurance market.

With such a significant share of the market being for profit this greatly reduces the choice available to the Australian public if they wish to access health insurance delivered by a not for profit fund. This will also reduce competition between the funds as the risk of members transferring to a not for profit fund will decrease. Many of the smaller funds are not for profit, however they are often not accessible to a wide number of people because of location restrictions or organisational capacity.

¹ More detailed information on the Strategy taken by MBF to become demutualised can be found in the 2006/07 and 2007/08 Annual Reports and the fund website: <http://www.mbf.com.au/AboutMBF/Annualreport>

² All market share figures come from the 2007/08 Annual Reports of each of the Health Insurers

It is important that the health insurance industry in Australia does not become for profit dominated. There are plenty of examples internationally of for profit health insurers delivering fewer benefits to members at higher prices.

4. Decrease in member services and increase in premiums

Converting Medibank Private to 'for profit' would require a shift in the operating rationale of the organisation. Medibank Private would need to shift its operational focus away from maximising member benefits and services to financial viability (as assessed by government as sole shareholder). Medibank Private shifting its focus towards making a profit, does not automatically mean that these profits will be invested in member services and benefits as is currently the case. There is a risk that to increase profits, staff costs and member benefits and services are cut while premiums increase.

5. Decrease in staff conditions

Of particular concern to the CPSU is the impact that transitioning to a for profit fund will have on the employees of Medibank Private. Currently Medibank Private employees enjoy wages and conditions that are above the industry average. However in recent months Medibank Private has been reducing its retail workforce numbers through more than 60 redundancies and through forcing staff into part-time arrangements. Approximately 200 positions have been reclassified from full-time to part-time.

In addition, Medibank Private has also signalled that it is in the preliminary stage of changing its retail model by reducing the number of shop fronts and converting to kiosks. Beyond the drop in service to Medibank Private fund members, this will impact on the workforce through reduced staffing levels, working hours and conditions.

If this application was to succeed, the focus of Medibank Private will become more on cutting costs and increasing profits and there is a significant possibility that these attempts to cut staff conditions will only intensify.

Conclusion

The Medibank Private 2007/08 Annual Report states that the purpose of the fund is:

'...to ensure our members are clearly better off with Medibank Private. Better off from a health and wellbeing perspective and better off financially through receiving superior value for the cost of their cover'.

The CPSU is concerned that a conversion to 'for profit; is at odds with this purpose.

The CPSU and its members strongly urge the Private Health Insurance Administration Council to carefully consider this application and ensure that Medibank Private cannot privatise in the future. This guarantees fund members and the Australian public greater choice in the private health insurance sector and assures that all Australians have access to affordable high quality health insurance.

The CPSU has welcomed this opportunity to make a submission to the Council and if there are further questions, the contact person for this submission is Dr Kristin van Barneveld, Director of Policy and Research on (02) 8204 6930.

Yours sincerely

Stephen Jones
National Secretary