



Health Insurance Restricted
Membership Association of Australia

ABN 43 358 871 550

Level 2
826 Whitehorse Rd
Box Hill VIC 3128
Tel 03 9896 9370
Fax 03 9896 9393

HIRMAA Submission

to the

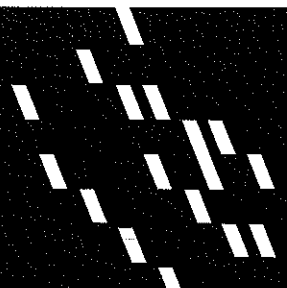
Productivity Commission

Contribution of the Not for Profit Sector

May 2009

www.hirmaa.com.au

President – Mr John Rashleigh, Navy Health
Executive Director – Mr Ron Wilson



INTRODUCTION

HIRMAA welcomes the opportunity to lodge a submission to the Productivity Commission's review of the contribution of Australia's *not-for-profit* sector.

HIRMAA is the peak industry body representing all thirteen restricted private health insurers and four open regional insurers (Attachment A). In summary, HIRMAA funds exist because of their unique historical and contemporary links to various professions, trades, industries, unions, employers and geographic regions. They are *not-for-profit* organisations with over 430,000 contributors providing health insurance coverage for approximately one million Australians.

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 organisations 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 into the hands of a few large organisations.

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 a greater proportion from the overall industry;
- in the case of restricted funds, they have had their unique nature acknowledged in the *National Health Act 1953* and now in the *Private Health Insurance Act 2007*.

Concurrently, the HIRMAA organisation :

- founded and provides the majority membership of the Australian Health Service Alliance. This organization is recognized as a highly effective negotiator of hospital and medical arrangements and the developer of the most comprehensive database in the country;
- shares critical performance and operational information to promote enhanced efficiency and capability throughout its total membership;
- founded and provides the majority membership of HAMB Systems, the software provider and developer for 23 registered funds;
- provides objective input and underlying support to government and industry initiatives;
- provides an educational forum for all member funds and their staff; and,
- works cohesively and positively with the regulator, Ombudsman, Government and other relevant parties.

HIRMAA CUSTOMER SATISFACTION SURVEY

Conscious of their role as not-for-profits, HIRMAA funds are committed to ensuring that they deliver best products and services to their Members. To obtain regular feedback and information from their Members, a number of HIRMAA funds conduct detailed customer satisfaction research*. In summary,

- Eleven HIRMAA funds conducted research with their members in February 2008 to ascertain member satisfaction;
- This research was also conducted in 2006 and 2007, providing the funds with valuable year-on-year insights;
- Results were benchmarked across the 11 funds, enabling open discussions regarding best practice and opportunities for improvement;
- More than 16,000 members responded to the survey, providing quantitative feedback on service delivery; and,
- The extremely positive results of 2006 and 2007 were replicated in 2008.

On average across the 11 funds, the key findings of the research are :

- Ninety seven percent (97%) of members are satisfied with their health fund membership;
- Ninety four percent (94%) are satisfied with the level of communication from funds;
- Ninety six percent (96%) are satisfied with funds' telephone responsiveness;
- Ninety five percent (95%) are satisfied with written service (mail, fax or email) from their funds; and,
- Ninety five percent (95%) are satisfied with the speed of claim payments.

The survey was conducted again in 2009 with the results currently being compiled. The results are to be presented to participating funds in June 2009. HIRMAA is very confident that the outstanding results of 2006, 2007 and 2008 will be replicated in 2009.

*Research conducted by *Discovery Research*, a Sydney based market research and marketing strategy firm. www.discoveryresearch.com.au

As not-for-profit organizations, HIRMAA funds pride themselves on their commitment to their Members and this commitment is reflected in their member retention rates and their complaints share compared to market share. Below is a table extract from the 2008 Private Health Insurance Ombudsman report, "The State of the Health Fund Report 2008." HIRMAA funds are marked in red.

Fund Name (Abbreviated)	Member Retention (hospital cover)	Membership Change % (number)	Complaints % compared to Market Share %					Code of Conduct Member
			Market Share	Benefits	Service	All Complaints	Complaints Investigated	
AHM	90.3%	13.8% (18879)	3.0%	4.4%	3.2%	3.8%	4.5%	●
AU	87.4%	-1.4% (-2342)	3.2%	5.4%	7.5%	6.1%	7.5%	●
BUPA	90.2%	4.6% (22399)	9.8%	8.8%	6.1%	7.4%	6.6%	●
GMHBA	89.7%	5.9% (4358)	1.5%	0.8%	0.7%	0.7%	0.9%	●
HBF	90.0%	2.6% (9777)	7.5%	3.0%	2.4%	2.4%	2.8%	●
HCF	90.1%	5.5% (24522)	9.0%	7.3%	4.3%	6.4%	4.7%	●
Healthguard	87.8%	1.6% (423)	0.5%	0.2%	0.3%	0.2%	0.1%	
Health Partners	90.7%	2.7% (872)	0.6%	0.4%	0.3%	0.4%	0.3%	●
Latrobe	90.3%	7.5% (2160)	0.6%	0.2%	0.3%	0.2%	0.1%	●
MBF	86.0%	3.0% (24206)	15.7%	21.1%	34.0%	28.4%	23.9%	●
MBF Alliances	83.6%	-2.8% (-2927)	2.0%	4.4%	5.2%	4.7%	5.0%	●
Medibank	90.0%	4.5% (64986)	28.7%	24.2%	22.5%	22.0%	22.0%	●
MU	86.9%	-0.6% (-466)	1.5%	3.2%	2.4%	2.8%	3.5%	●
NIB	88.8%	11.1% (36605)	7.0%	8.1%	6.0%	7.3%	10.0%	●
Westfund	90.8%	6.1% (2220)	0.7%	0.8%	0.2%	0.5%	1.0%	
CBHS	94.6%	6.0% (3506)	1.2%	0.6%	0.3%	0.5%	0.3%	●
Defence Health	91.3%	5.9% (4191)	1.5%	1.5%	0.4%	1.1%	1.0%	●
Teachers Fed	94.8%	5.0% (4298)	1.7%	1.2%	1.4%	1.1%	1.5%	●

Smaller Funds (less than 0.5% National Market Share)

Fund Name (Abbreviated)	Member Retention (hospital cover)	Membership Growth %	Number Complaints Received	Below market share?	Number Complaints Investigated	Below market share?	Code of Conduct Member
CDH	93.6%	8.8% (180)	3		1		
CUA Health	89.2%	2.5% (500)	4	Yes	0	Yes	
Druids Vic	82.3%	-2.7% (-174)	16		3		
GU Corporate	92.2%	17.7% (2228)	6		1	Yes	
HIF	88.3%	6.9% (1500)	14		6		●

Mildura	91.5%	2.1% (290)	0	Yes	0	Yes	
Onemedifund	new fund	new fund (2341)	1	Yes	1		•
Peoplecare	93.1%	6.4% (1065)	1	Yes	0	Yes	•
QCH	89.9%	4.1% (477)	3	Yes	2		
St. Luke's	88.7%	2.7% (543)	6	Yes	2	Yes	•
ACA	92.9%	1.7% (75)	2		0	Yes	•
Doctors' Health	92.7%	10.2% (477)	1	Yes	0	Yes	•
HCI	94.3%	2.7% (95)	2		1		•
Navy Health	91.8%	3.0% (381)	1	Yes	0	Yes	•
Phoenix	93.7%	1.4% (86)	0	Yes	0	Yes	•
Police Health	91.9%	12.2% (1451)	4		2		•
RT Health Fund	94.6%	8.8% (1402)	14		6		•
Reserve Bank	77.4%	0.2% (4)	1	Yes	0	Yes	•
Transport	92.4%	5.4% (179)	0	Yes	0	Yes	•
TUH	93.9%	4.4% (880)	12		4		•

Source : State Of The Health Fund Report 2008, Private Health Insurance Ombudsman

The figures above are produced by the PHIO on an annual basis and it is therefore instructive to quote from page 7 of the Ombudsman's report, under the heading of "Key Consumer Issues and Developments".

"As at January 2009 there were are 37 health insurers. This relatively large number, however, masks the fact that 77.7% of the market is covered by the six largest funds. (Source: Operations of the Private Health Insurers 2007/08, PHIAC, p 14.)"

The rest of the industry is comprised of smaller funds operating in niche markets and restricted funds that are open to members of a particular industry or organisation. PHIAC commented in its Annual Report that the smaller funds provide increased competition in the market. (Source: Operations of the Private Health Insurers 2007/08, PHIAC, p 17). A number of funds focus on customer service and member satisfaction to differentiate themselves in a competitive market. Ultimately, this diversity is of benefit to consumers.

The PHIO's experience is that size is not a significant factor in an insurer's ability to achieve good customer satisfaction. Some larger insurers perform very well in terms of member retention and customer satisfaction, as do smaller insurers operating in niche markets. At the same time, the management expense ratio (MER) for health insurers averages 10.5%, which is low compared with other similar industries such as general insurance. (Source: Operations of the Private Health Insurers 2007/08, PHIAC, p 31)."

It is also instructive to note the Ombudsman's observation on page 8 of the same report.

"Funds will need to focus on member retention strategies and tailoring their policies to meet changing needs, particularly as economic conditions mean consumers might need to reconsider their financial priorities. Those funds that are able to deliver superior levels of customer service and member satisfaction will be in a better position to retain members".

HIRMAA funds are confident, that based on their not-for-profit status and their collective and individual corporate ethos, they are well placed to deliver superior levels of customer service and member satisfaction thereby maximizing the opportunities to retain members.

To this end, HIRMAA funds, as part of their commitment to better services and health outcomes for Members, are seeking to develop a suite of broader health cover programs as permitted and encouraged under the *Private Health Insurance Act 2007*. HIRMAA funds have a number of programs already in operation and are currently in discussion and/or negotiation with a number of providers to improve and expand such services with a particular emphasis on chronic disease management.

To highlight the commitment of HIRMAA funds to the not-for profit ethos, below is a selection of comments from HIRMAA funds to their respective Members via annual reports, websites and newsletters.

Phoenix Health Fund has always been a Not For Profit organisation, since 1953, when the fund came into existence, and the Board of Phoenix Health Fund strongly believes that this is the way Phoenix Health should stay.

The Board of Phoenix Health Fund firmly believes that it would not be in the best interests of our membership to change to 'for profit' status as this would mean a different approach to running the fund. For one thing, 'for profit' health funds need to generate profits to pay dividends to their shareholders, in addition to providing health cover for their policy holders. To pay dividends to their shareholders, they must make profits above and beyond the cost of claims, running their business and the statutory requirements of the regulator.

For-profit companies also have the additional cost of paying income tax on their profits. This would mean that to generate additional profits for shareholders, contributions would have to increase more than the average, or benefits would need to decrease, or the cost of running the fund would need to reduce. In Phoenix Health Fund's case, the cost of administering the business (otherwise known as 'management expenses') is already amongst the lowest in the industry. In essence the Board believes that providing the health cover needs of Phoenix Health Fund members is best served by remaining a Not for Profit fund, owned and run by its members, for its members.

PHOENIX NEWSLETTER, September 2008

CBHS is a not-for-profit organisation and it returns to its members, by way of benefits, as much of its contribution revenue that is commercially sustainable. During the past year your Fund processed 641,000 member

claims, a 17% increase in volume compared to the previous year, which resulted in \$149 million being returned to members in benefit payments.
Member Review brochure, 2008

Queensland Country Health is a not-for-profit health fund and we are committed to this structure. We believe that being a mutual allows us to deliver the best outcome for our Members, where we focus on delivering improved benefits and services for our Members rather than improving financial wealth for shareholders.
Members' Magazine, April 2008

Teachers' Union Health is a strong, independent health fund that is committed to the provision of superior health insurance and allied health care services. Our membership base and not-for-profit status allow us to focus strongly on our members and tailor our health insurance products and services to meet the specific needs of our members.
TUH Annual Report 2008

As providers of health cover to members of the Defence Force and their families since 1955, **Navy Health** understands the differences between serving and civilian life. Navy Health is a restricted, not-for-profit, registered private health insurer offering top quality, value for money health cover with an array of benefits. As a not-for-profit health fund, there are no dividends to shareholders. Over 90% of contributions are paid back to members in the form of benefits.
Members' Newsletter 2008

Defence Health Limited has some real differences compared with most other health insurers. The most important difference is that we provide health insurance just for the defence community, and have been doing so for the past 56 years. Another important difference is that as a not-for-profit health fund, we retain all surpluses in the business to fund benefits in future years. We do not have to pay dividends to shareholders nor income tax to the government, so the benefits paid to our members are maximised. We can and do focus entirely on providing the greatest possible benefits to our members because we have no other interests except serving the defence community.
Defence Health website

rt health is a mutual not-for profit fund. That means we're owned by our members. We have no reason for existing other than to provide services to our members with the best possible health cover at the best possible price. We return some 93% of contributions to our members through claims payments; with us, it's all about a better deal for member, not shareholders. We've been providing health cover to people in the transport and electricity industries for 120 years, so we've had a long time to get it right.
Members' brochure 2009

In the longer term Directors felt the highly regulated nature of health insurance and the original basis of **Westfund** to serve our members interest first and foremost, were clearly decisive issues for members in maintaining our current structure. We believe a 'for Profit' health fund will be encouraged by shareholders to increase profits to maintain or increase share value which will continue to increase pressure on higher premium increases and reduction in benefits and services which would quickly erode benefit of "free shares".

Members' newsletter, December 2007

Transport Health has been looking after our Members' health related needs since 1888 and today we're doing it better than ever. As the insurer to the industry we offer easy to understand Hospital and Extras covers at everyday low rates to people working in the transport industry. We are a not-for-profit organisation, so you can be sure you'll get the best deal to keep you, your family and your bank balance happy.

Transport Health brochure 2009

Peoplecare is a not for profit organisation existing only for the benefit of members...it is owned, operated and managed by members. It has as a key objective - to protect the interests of the members and maintain the status as a mutual organization.

Peoplecare Strategic Plan

The Doctors' Health Fund is a not-for-profit mutual company owned and operated for the benefit of members ONLY:

- Profits remain in the fund for the benefit of members, through greater capital adequacy or price efficiency;
- 'Members come first' philosophy, no shareholders to service, which allows total focus on membership, products and service delivery.

Doctors Health Fund Strategic Plan 2009

As a not-for-profit insurer, you can be assured that your premiums only go towards the provision of benefits for members and management expenses. We are proud that **ACA** Health management expenses are amongst the lowest in the industry.

ACA Health Newsletter 2009

As a member focused organisation, any surplus **Health Partners** makes is used to drive benefits back to our membership in the form of competitive premiums and improved services. We only increase premiums by the amount necessary to continue providing members with access to consistently competitive, fair and uncomplicated health cover.

Health Partners Annual Report 2008

Health Care Insurance is a restricted fund that serves the paper, forest and timber industries. HCI is a 'Not For Profit' organisation that is genuinely focused on providing the best possible benefits for its members.

HCI website

Police Health is the only police-based fund in Australia and, because it is a not-for-profit fund operating for the benefit of police and their families, it maintains a single-minded focus on meeting your needs.

Police Health Website

Teachers Federation Health is your own-not-for profit health fund, dedicated to providing quality health access for teachers, educators and support staff. We are in the business of helping our members to remain healthy, providing financial support, procuring access to an extensive network of service providers and supporting health initiatives that empower and assist individuals to achieve optimal health outcomes.

Teachers Federation Health website

Attachment A

ACA Health Benefits Fund Ltd

CBHS Health Fund Ltd

Defence Health Ltd

Health Care Insurance Ltd

Health Partners Ltd*

Lysaght Peoplecare Ltd*

Navy Health Ltd

Phoenix Health Fund Ltd

Queensland Country Heath Ltd*

Queensland Teachers' Union Health Fund Ltd

Railway and Transport Health Fund Ltd

Reserve Bank Health Society Ltd

South Australian Police Employees' Health Fund Inc

Teachers Federation Health Ltd

The Doctors' Health Fund Ltd

Transport Health Pty Ltd

Westfund Ltd*

* denotes open fund