

# [Medibank privatisation](https://assignbuster.com/medibank-privatisation/)

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Executive summary
In April 2006 the Commonwealth Government announced its intention to sell Medibank Private. The reasons given for the sale include that there is no good public policy reason for the government to own ahealthfund, and that a privately-owned fund would be able to be more efficient, with the possibility that this may lead to lower premiums for members. This Research Brief examines the historical development of Medibank Private, and the questions of who owns or enjoys other rights in the fund, and whether there are public policy reasons for the government to maintain the current Medibank Private ownership structure.

RECOMMENDATION

That the status quo withrespectto the public ownership of Medibank is maintained . INTRODUCTION
Medibank Private began its operations on 1 October 1976. This followed the announcement by the Fraser government on 8 June 1976 that the Health Insurance Commission (HIC) would be authorised to offer private medical and hospital insurance in all states in competition with existing registered health funds. The Health Insurance Commission (HIC), as the operator of Medibank Private, would assume the same rights and obligations under the National Health Act 1953 as other registered health funds.

KEY ISSUES
There have been many issues raised in the debates over the possible sale of Medibank, since the possibility of sale was raised during the late 1990’s and the government announced its intentions to do so early 2006. The key issues are discussed below. Ownership of Medibank

It has been observed that some policy holders are of the view that Medibank is a unique public entity given that a significant portion of its financial reserves are derived from people who purchase policies. A number of opponents of the sale have questioned whether Medibank is the Government's to sell. Others have argued Medibank members possess rights which may stand in the way of the sale or entitle them to compensation in some form. These arguments misunderstand a number of points. Medibank Private Limited is a public company listed by shares registered under the Corporations Act 2001. In regard to this, it is no different to any other public company trading in Australia , except that all 85 000 100 shares in the company are legally and beneficially with the Commonwealth. Ownership of, andresponsibilityfor, Medibank was demonstrated most recently in 2004, when a capital injection of $85 million was made by the Commonwealth to bring the capital structure of the company in line with industry practice.

A member of Medibank Private pays a premium in exchange for a product, in this case coverage against medical expenses. Medibank Private invests the premium revenues, generating a surplus that is used to make payouts to members as and when claims are accepted. The assets comprising the Medibank Private fund do not belong to the contributors, nor do they belong to the Government. Although the Commonwealth owns Medibank Private, the assets comprising the fund are held by the company as an independent legal entity and not by any shareholder. Competition and Market Effects

Another key concern for those opposed to the sale has been that privatisation would lessen Medibank's ability to continue providing competition in the market, especially through being a price setter. Opponents of the sale have also questioned the nature and extent of possible efficiency gains resulting from Medibank's sale, as well as the associated impact these would have on Medibank's competitiveness with other funds. There has been an argument that the potential benefits were purely hypothetical and there was little evidence to support claims of increased efficiency. This was because the number of comparable for profit health funds was small and the competition effects of the sale would be limited. The Australian Competition and Consumer Commission concluded that under current proposals competition was unlikely to be affected adversely by the sale. Medibank Private is already a market pace setter in efficiency and innovation. One of its strong point has been Medibank's success in negotiating with health providers on the basis of its bulk buying power.

This has brought gains for members in the form of contained premiums and served as a model for other private health insurers in the way they approach their business. Medibank Private is also highly competitive in terms of the ratio of revenue it spends on management, its member retention, and it’s very high market share. The sale of Medibank Private will also reduce the administrative burden on the business, as it will no longer be required to comply with the obligations befalling Government Business Enterprises, including extensive additional reporting requirements. This will enable Medibank to compete on an equal footing with other health insurance providers which are not subject to these obligations. It would also free Medibank Private to concentrate on its core business: the provision of competitive, efficient health insurance Protection of Members

The sale will not result in any reduction in the surety of the insurance product sold by Medibank Private. The capital adequacy and solvency provisions, which all private health insurers must meet, remain untouched. Medibank Private will be no less safe and solid than any of its competitors. An array of measures and safeguards will also continue to protect fund members. The Minister for Health has wide-ranging powers inrelation to healthfunds, all of which are directed at protecting the interests of policy holders. The minister has power to disallow rule changes and premium increases and to determine rules around gap cover schemes, loyaltybonus schemes and discounts on premiums. The minister has power to determine minimum default benefits and prostheses benefits. The minister has power to declare what is and is not a hospital or what is or is not a day hospital facility. He has power to seek to set performance indicators for the industry, to seek explanations from health funds, to investigate health funds, to seek enforceable undertakings from health funds, and to revoke their status as a participating insurer for the purposes of the 30 per cent premium reduction scheme. The quality of the insurance coverage offered by a privatised Medibank Private will remain protected. Any consumer dissatisfaction with service standards after the sale would likely result in more complaints to the ombudsman. The ombudsman is empowered to investigate complaints and report or make recommendations to funds following an investigation.

The ombudsman may also report to the minister or the department on the conduct of a health fund. The ombudsman, noted the government's undertaking to maintain levels of service for policy holders in rural and remote Australia, and reported his intention to closely monitor the sale process to ensure standards of service in the bush were maintained. The Private Health Insurance Ombudsman and the Private Health Insurance Industry Administration Council plays an important role in monitoring the conduct of health funds, especially in relation to increases in premiums. Along with extensive regulatory protections, these two offices will continue to provide a high degree of oversight and protection for members of a privatised Medibank. Possible Benefits of Privatisation

•The sale of Medibank would see the government raise between $3. 5-4. 5billion. This revenue could be used to clear debt •It will lead to improvement of efficiency of the economy. This will through improved investment performance through flexibility to adopt practices that other for profit PHI funds are already taking advantage of •A reduction in management costs as a proportion of premium income, for example through rationalisation of management, call centres and customer service delivery mechanisms, while maintaining or even increasing customer service standards Possible Benefits of Maintaining Status Quo

•It will still remain competitive. Its commercial potential has not been constrained. The company returned more than $500million in dividends •A better way of controlling the premiums. It is a market pace setter • Irrespective of any change in ownership, Medibank Private’s premiums will need to rise to cover a substantial increase in benefits necessitated by such factors as the ageing of the Australian population and increased cost per day of hospital care Conclusion

The government clearly owns Medibank Private Limited (the managing organisation of the Medibank Private fund) the fund itself is best characterised as a government controlled not-for-profit entity. Members of the fund nevertheless have certain rights to the benefit of the fund and associated assets and these rights need to be considered in any scheme for the sale of Medibank Private. There is absence of information about the likely size or geographical presence of Medibank Private after it is sold, it is difficult to gain a precise understanding of the impact of the sale on competition or the capacity of the fund to contain health costs. It is important to highlight the importance of competition between funds, and the need for funds with sufficient strength to negotiate effectively with
service providers and hence control costs. Therefore it is advisable to maintain the public ownership of Medibank. List of Resources

CRA International final report ; The impact of privatisation of Medibank Private on private health insurance premiums (Oct 2006) Department of Parliamentary Services website
Liberal Democratic Party website
The AUSTRALIAN; Medibank Private means business, sale or no sale.(Sep 26 2011) The Age website