

APR T 02 FEB

Marginal call

Health insurance operating
profit margin* (%)
Top 6 v rest of industry



* Australian residents only



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Matthew Koce, HIRMAA CEO



SOURCE: MORGAN STANLEY

Ley's attack favours big funds over non-profits

Tim Binsted

Health Minister Sussan Ley's crack-down on health insurance premiums threatens the viability of smaller non-profit funds and may force industry consolidation that favours big players such as Medibank and Bupa.

Ms Ley, who is overseeing a review of the \$19 billion private health insurance sector, wrote to health funds on Friday asking them to either lower their requested premium increase or justify their initial request.

“Putting the blame on us might get the minister some good headlines but it could do long-term damage to the industry and force health funds to the wall,” said Matthew Koce, spokesman for the Not-For-Profit Alliance of Health Insurance Funds and chief executive of non-profit fund lobby HIRMAA.

“Some funds might decide to fold and leave the marketplace or consolidate with others.”

The Not-For-Profit Alliance of Health Insurance Funds comprises 22 mutual funds including Police Health, Defence Health, Teachers Health Fund and Australian Unity.

On a combined basis, the 22 funds cover some 2 million members, about 20 per cent of the market. The big for-

Key points

Sussan Ley wants to halt spiralling health premiums.

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profit Australian funds, Medibank, Bupa, and NIB, have market share of about 30 per cent, 28 per cent and 8 per cent respectively.

NIB managing director Mark Fitzgibbon said on Monday that he expects the government to rein in rampant inflation in the cost of healthcare if premium increases, which offset the rising cost of care, are cramped.

Shaw & Partners analyst David Spotswood said pushing down premium increases will make the strong health funds stronger and weaken the bottom end of the market.

“If the Health Minister is saying ‘well you can’t have premium increases’, what happens to the guys who haven’t got the scale and efficiency of a Bupa or a Medibank?” he said.

Ms Ley said the Australian Prudential Regulatory Authority would continue protecting consumers by ensuring an insurer’s premium

increase was financially viable.

“If there are extenuating circumstances as to why an insurer can’t lower their premiums, then we are simply asking on behalf of consumers for the evidence to back this up and APRA will make a judgment accordingly,” she said.

Mr Koce said that many of the member funds are based in smaller regional centres such as Launceston, Burnie, Townsville, and Mildura.

“The minister’s gone into uncharted territory in terms of government intervention in the marketplace. It could mean job losses in places like Launceston and Mildura if funds can’t pass on growing provider costs to the consumer,” he said.

Average health insurance premiums rose by more than 6 per cent in 2014 and 2015, and affordability is becoming critical. About 500,000 Australians downgraded or cancelled their private health insurance cover in 2015.

Ms Ley has declared her intent to halt spiralling premiums and protect consumers from “junk” policies that are hard to understand or have problematic exclusions.

Ironically, denying health funds premium increases might result in higher excesses and a shift to more exclusionary policies to protect margins.