

5 September 2008



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Ms Joanne Palisi
Director – Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601

Dear Ms Palisi

Sisters of Charity Health Service Limited application A91099 for revocation and substitution of A30216 and A30219.

This letter is a submission from HBF Health Funds Inc. (HBF) in response to the above Application for Authorisation from Sisters of Charity Health Services Limited (Application) for the Revenue Negotiation Network (RNN)

HBF does not oppose the Application but we seek the exclusion of Western Australia from the authorisation

Inaccuracies in the Application

Firstly, we would like to highlight the inaccuracies in the application, which do not provide an accurate picture of the Western Australian market.

- ◇ The figures quoted in the application for Mercy Private Hospital (174 beds) reflect current occupancy levels, however the hospital has a potential occupancy of 244 beds. All other hospital beds quoted in the submission are for potential occupancy not actual occupancy levels.
- ◇ The figures quoted in the application for Joondalup Health Campus (470 beds) include public patient beds, which do not form part of the private hospitals in the region. This figure should be 95 private beds.
- ◇ Based on the changes noted above the market share of the proposed RNN in Western Australia is in fact 51% and not 42.9%, as quoted in the application.

We also dispute the comparison made in the application that likens lower hospital revenue outcomes in the South Australian market to that of Western Australia due to health funds in both markets being in a position to "dictate terms". This comparison is not valid as in Western Australia, despite the fact that there is one dominant fund, we have the highest "casemix adjusted revenue per separation" (\$3,170) compared to South Australia (\$2,372). It is likely that this is due to Western Australia also having one dominant hospital group.

Intrinsic Public Detriment

The environment in Western Australia with two hospital groups making up half of the market will, in our view, result in the public benefit (cost efficiencies) from the RNN being outweighed by the public detriment. HBF may have no option but to accept the negotiating position of the RNN to prevent the following outcome from collective boycotts:

- A large number of privately insured Western Australians may not be able to receive care at half of the acute hospital facilities in Western Australia because of large out of pocket costs (eg gaps will occur where an agreement between RNN and health fund cannot be reached because in the absence of an agreement the health fund may revert to funding a minimum mandated benefit levels).

Further, the acceptance of the RNN position will result in:

- 60% of Western Australians who are privately insured paying substantially higher premium to cover the increased benefits paid to hospitals. As an example a 1% increase in total hospital benefits equates to almost a 1% increase in hospital product premiums; and
- further increases in the WA casemix adjusted revenue per separation which is already significantly higher than any other state in Australia.

Public Detriment arising from Anti Competitive Behaviour

A negotiation of reduced benefits with smaller hospitals in WA may also occur if WA funds accept the RNN position to avoid a collective boycott. This will create an anticompetitive environment in Western Australia because the smaller hospitals cannot operate without the support of adequate benefits from the major health fund operating in WA. Consequently, the Western Australian health consumer may not receive a choice of hospital or a choice of hospital services in their locality.

Sharing information

We strongly oppose the exchange of fee, cost, price and other information due to the complexities and history surrounding individual hospitals fee/benefit schedules. We see confidentiality as critical to our negotiations and the amount of benefit we pay to hospitals.

Conclusion

Due to the unique situation in WA (HBF's market share is 60% and the proposed RNN market size is 51%), the effect on hospital negotiations and the public detriment from a collective boycott is far higher in Western Australia than other states in Australia. Substantially increased hospital benefits to prevent a collective boycott would result in:

- (a) A substantial increase in premiums (further exacerbated by the expected increase in the threshold for the Medicare Levy Surcharge);
- (b) A detrimental impact on smaller hospital groups due to HBF's inability to provide the same level of benefit increases (an anti competitive environment);

- (c) A loss in members due to (1) rising premiums; or (2) the devaluation of the private health insurance value proposition through the reduction in member choice of private facility

Accordingly our submission seeks the exclusion of Western Australia from this submission due to the unique hospital/health fund environment

If you would like to discuss these matters further, please telephone Sheila Hood, General Manager Health, email sheila.hood@hbf.com.au or direct on 08 9265 8650

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Bransby', written over a faint, illegible background.

Rob Bransby
Managing Director