



Australian Government
Private Health Insurance Ombudsman

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MARS/PRISM:

Dr Richard Chadwick
General Manager
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Australian Competition & Consumer Commission
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CANBERRA ACT 2601



Dear Dr Chadwick

Re: Reserve Bank Health Society Ltd application for authorisation A9264 – interested party consultation (Ref: 45769)

Thank you for your letter dated 13th May 2011, in relation to the application for authorisation from the Reserve Bank Health Society Ltd (RBHS), inviting PHIO to provide comments on this application.

I have reviewed the information provided in your letter and in the RBHS's application for authorisation. PHIO has no objection to this authorisation and I note that the application is supported by the industry regulator, the Private Health Insurance Administration Council¹. PHIO's response to the specific issues requested by the ACCC is set out below:

- 1. Whether the proposed arrangements are likely to result in increased efficiencies in the operations of RBHS and if so, whether these efficiency savings would be passed onto consumers;**

The proposed arrangements are likely to result in increased efficiencies in the operations of RBHS. As the smallest registered health insurer, RBHS is unlikely to have sufficient staff resources to carry out all of the listed services in-house. Increased efficiencies are likely to benefit RBHS members through better benefits and services and lower premium increases. The authorisation application notes that RBHS's premium increase in 2011 was 1.5%, which is the lowest in the industry, in anticipation of administrative savings from these new arrangements.

¹ page 5 of the RBHS's application

- 2. Whether the proposed arrangements are likely to result in increased services for consumers. For instance, the development of new private health insurance products and/or better claims management procedures;**

The proposed arrangements are likely to result in increased services for consumers. The authorisation application indicates the proposed arrangement will allow for the introduction of chronic disease management programs for members, as well as on-line services, which RBHS has been previously unable to provide.

- 3. Whether the proposed arrangements are likely to result in other public benefits. For instance, increased compliance with regulatory requirements;**

The authorisation application notes that compliance requirements for RBHS, as the smallest of Australia's 37 registered health insurers, have become increasingly burdensome. The proposed arrangement is likely to result in increased compliance with regulatory requirements, by providing increased resources for this.

- 4. Whether the proposed arrangements are likely to impact on the broader market for private health insurance. For instance, whether the management services contract would provide benefits to Peoplecare so as to increase its ability to compete with the major providers of private health insurance, would the proposed arrangements create barriers to entry or expansion for existing or alternative providers;**

RBHS is the smallest registered health insurer, with 2,100 members. Peoplecare is a small, regional insurer with a 0.38% share of Australia's private health insurance market. The proposed arrangement is therefore unlikely to have a significant impact on the broader market for health insurance, either by increasing Peoplecare's ability to compete with larger insurers, or by creating barriers to entry or expansion for existing or alternative providers.

- 5. Whether the proposed arrangements are likely to result in any public detriments and if so, the nature of these detriments.**

As indicated above, given the size of both RBHS and Peoplecare, the proposal is unlikely to result in any public detriments.

- 6. The length of the authorisation. For instance, RBHS is seeking authorisation for a period of 10 years to account for the potential extension of management services agreement, would it be preferable for the ACCC to only authorise the agreement for the five year initial term of the contract;**

For the reasons indicated at points 4 and 5 above, PHIO does not believe there is a need to limit the agreement to five years.

7. The scope of the special services to be provided by Peoplecare to RBHS under the management agreement;

The scope of the special services to be provided to RBHS by Peoplecare under the management agreement is extensive and includes member services, benefit management, regulatory and management reporting, Information Technology and governance services. The scope of services to be provided by Peoplecare is likely to result in significant management savings to RBHS. RBHS indicates in its application that in anticipation of savings from the introduction of the agreement, its premium increase was 1.5%, which was the lowest in the industry and well below the average premium increase for the industry of 5.56%.

8. The situation that would likely occur if authorisation was not granted by ACCC. For instance, would RBHS be able to continue operating independently, could the special services be performed by an independent provider (that is, a party who is not a participant in the private health insurance industry), or can the special services only be performed, or best performed by another industry participant.

PHIO's view is that without authorisation, RBHS may have difficulties in continuing to operate independently. At the very least, without authorisation, its members are unlikely to gain access to chronic disease management programs and online services, which would be of benefit to them.

PHIO's assessment is also that, given the complex compliance and other requirements of managing a private health insurer, these services could not be performed by a private provider as efficiently or effectively as by a health insurer. Until recently, Peoplecare was also a restricted access insurer and its staff members therefore have a very good understanding of the service requirements of a small, restricted insurer.

Please contact me on (02) 8235 8777 if you would like further information or additional clarification regarding my comments.

Yours sincerely



Samantha Gavel
Private Health Insurance Ombudsman
Tuesday, 31 May 2011