

29 August 2013

Mr Bruce Cooper
General Manager
Strategy, Intelligence, International and Advocacy Branch
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Dear Mr Cooper,

Re: ACCC Report to Senate on Private Health Insurance

Thank you for the opportunity to provide input regarding the practices of health funds in relation to end of financial year advertising.

HBF is a not-for-profit member-focused company that insures the health of nearly 900,000 members in Western Australia. We see tax time advertising as a means to inform consumers of possible benefits which may be available and are therefore supportive of the current market strategy.

The legislative mechanisms of the Medicare Levy Surcharge (MLS) and Lifetime Health Cover loading (LHC) are complex. In the past, the Government funded its own advertising campaigns through both TV and print media to inform members of the potential impacts of these incentives, with the campaigns being concentrated throughout tax time each year.

Despite these campaigns, there is still limited public awareness of these Government initiatives and considerable financial advantages to consumers being appropriately informed. Therefore, HBF believes that providing information regarding these incentives by means of tax time advertising shows support for the incentives the Government has introduced and is in the best interests of consumers.

Medicare Levy Surcharge

The MLS is a financial penalty levied on Australian tax payers who earn over a certain income and do not have an appropriate level of hospital cover. A recent IPSOS survey has shown that there are various reasons why people choose to take out private hospital cover, however 13% of those surveyed specifically said that they took out private hospital cover to avoid the MLS.¹ The report went on further to suggest that public awareness of Government initiatives is low when unprompted.² This supports a view that it is beneficial to ensure that consumers are aware of these initiatives and understand the benefits and implications of taking out private hospital cover. The timing of such an information campaign simply ensures that members who decide to take out cover before 30 June will be entitled to the financial benefits for the entire year following.

¹ IPSOS Health Care & Insurance Australia 2011, Section 8 page. 153

² IPSOS Health Care & Insurance Australia 2011, Section 8 page. 130

Lifetime Health Cover Loading

LHC is a Government initiative designed to encourage people to take out private hospital cover at an early stage in life and maintain cover. To avoid having to pay LHC, a person would need to hold private hospital cover by 1 July following their 31st birthday. For people aged over 30, 1 July signifies the date on which LHC will apply or increase, therefore taking out private hospital cover prior to this time can be beneficial to many consumers. Of course, any information provided needs to be clear that impacts are only on consumers over the age of 30 and that the loading may be either avoided or reduced, depending on their personal circumstances.

Impacts of Advertising

The purpose of advertising in the lead up to the end of financial year is simply that it is the period when there is increased public awareness of tax matters. We find that we receive a considerable number of referrals from accountants during this time as tax conversations are prompting consumers to seek additional information from insurers. Although advertising regarding Government incentives is focussed at this time of year, we continue advertising past 30 June since joining at any time reduces the pro-rata amount of MLS a member may need to pay.

The aim of any advertising we conduct is to provide basic information to generate enquiries from potentially impacted members. Then, when they contact us, we can take the opportunity to educate them on the impacts of incentives and they can make an informed decision as to their personal needs.

Although a key driver of the purchase of private hospital cover is a means to avoid the MLS and LHC, HBF as a member-focussed organisation ensures that the actual conversations that take place between HBF and our prospective members are the same regardless of the time of year in which they choose to make their purchase.

Consumer Experience when Joining

HBF has a framework to ensure all staff who interact with members are rigorously trained to undertake a thorough analysis of the potential needs of a consumer so that this can be incorporated into the product recommendation, allowing the consumer to be offered a policy which best suits their needs. Part of this “needs discovery process” involves an explanation of Government initiatives such as MLS, LHC and the Australian Government Rebate on private health insurance. By discussing this with members we best ensure consumers are able to make informed decisions on what type of health insurance policy suits their needs, including understanding the implications and benefits in relation to their tax situation. As a member-focussed organisation, it is in our best interests to clearly explain these details at the time of purchase to ensure member expectations are met.

Joining Online

For people who opt to join HBF through our website, we extend the same duty of care to ensure their joining experience reflects the process when joining over the phone or in a branch and they are provided with the same information regarding MLS, Rebate and LHC. Where possible, our website has been developed to ensure that information is individually tailored based on how the member answers specific questions.

The online quoting process involves the member being prompted to check criteria for such things as the Rebate, MLS and LHC with detailed information being readily available. The process links the consumer to the Product Disclosure Statement (PDS) which gives full detailed policy information; members are also asked to accept the terms and conditions of the policy including agreeing to a declaration, which mirrors the disclaimer normally read or played to member when joining over the

phone or in person at a branch. Finally, when a member joins online we follow up with a phone call to give them an opportunity to discuss anything about their cover.

Cooling off period

All new members receive a 30 day cooling off period which allows them to consider whether the product they have chosen is best suited to their needs. This period allows time for the member to receive their policy documentation, which includes their policy certificate and PDS, and gives them time to consider the appropriateness of their chosen level of cover in relation to both their health and tax needs. While we provide information about Government incentives, we also recommend to members that they seek tax advice from their tax advisor or the Australian Tax Office to ensure their chosen product meets their personal circumstances.

Private Health Insurance Code of Conduct

HBF is a signatory to the Private Health Insurance Code of Conduct, as are many health insurers. This Code requires us to follow many of the processes detailed above, with key requirements being that staff are appropriately trained and consumers receive all information necessary to enable them to make fully informed decisions. Adherence to this Code is one of the reasons that complaints regarding private health insurance remain low. Complaint statistics from the industry Ombudsman have not highlighted concerns with complaints from members regarding tax time advertising.

Conclusion

Since there is limited public awareness of Government initiatives such as the Medicare Levy Surcharge and Lifetime Health Cover loading, consumers are not fully informed of the considerable financial advantages available to them by taking out private hospital cover. HBF's tax time advertising is aimed at raising consumer awareness of these financial benefits and is simply delivered at a time when tax matters are most relevant. HBF has measures in place to ensure consumers are given sufficient information, allowing them to make informed decisions to choose a health insurance policy which best suits their health and tax needs. For these reasons, we believe it is in consumers' best interests to continue to provide information leading up to tax time.

Once again, I would like to thank you for the opportunity to provide input regarding the practices of health funds in relation to end of financial year advertising. If you have any queries, please feel free to contact Michelle Townsend on (08) 9265 8714.

Regards

Sally Davies
Executive General Manager, Member Relationships