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QUARTERLY BULLETIN NO 25
 (1 October to 31 December 2002)

INTRODUCTION

This is my first quarterly bulletin as Private Health Insurance Ombudsman. I began in the job halfway through the quarter. Already I am finding the role both challenging and rewarding. It has been particularly encouraging to experience the level of support and respect for the Ombudsman role. This is, in significant part, an indication of the effectiveness and good work of the staff of the office and of my predecessor, Norman Branson. I thank Norm for that legacy.

I am committed to maintaining these regular bulletins from my office as one key way in which we can pass on, to the industry, learnings from our complaint handling activities. I will also be seeking to develop ways of providing more targeted feedback to individual funds, hospitals and provider organisations.

COMPLAINT STATISTICS AND ISSUES

In this quarter we received 635 complaints of which 108 were classified as disputes. This is a decline in the number of complaints compared to the previous quarter (722 complaints and 127 disputes) but is a significant rise on the level of complaint activity recorded for the December quarter last year (444 complaints and 102 disputes).

Three issues dominated in complaints over the last quarter.

A breakdown in contract negotiations between NIB and the Ramsey Health Care group of hospitals resulted in a significant number of complaints to the office in September and October.

In the two weeks prior to Christmas three funds sent unusual seasons greetings to their members advising them of detrimental rule changes to take effect from the beginning of the New Year.

In many complaints contributors claim to have been misled by information provided in fund brochures about benefits.

Further comment on each of these issues is included in this bulletin.

HOSPITAL CONTRACTING AND THE CODE OF CONDUCT

Once again, the Ombudsman has been required to intervene to assist members caught in the middle of a contract negotiation dispute between a fund and hospital group. The pre-existing contract between the NIB and Ramsay Health Care was due for renewal, but negotiations broke down and one party gave notice to the other of its intention to cease its contractual arrangement.

As a consequence, fund members who were booked into hospitals operated by Ramsay Health Care found themselves caught in the middle of the dispute. Members were contacted by the hospital prior to admission that as there was no longer a contract with their health fund, they would be required to pay the full cost of their hospitalisation on admission. For some, the cost quoted was many thousands of dollars. This information was very distressing to members requiring surgery or in the last stages of pregnancy. Members' difficulties were compounded because the solutions offered to them, by the hospital and fund, were not realistic in their circumstances.

Following the intervention of the Ombudsman, who met with both parties individually, arrangements were put in place to enable members with pre-booked admissions to receive treatment without having to pay large upfront costs.

There are still too many occasions where hospitals and health funds seek to use consumers in the process of contract disputes, in contravention of the Principles of the Voluntary Code of Practice for hospital purchaser/provider agreement negotiations. The ensuing negative publicity that results from these disputes is also damaging to the industry as a whole and not just the parties concerned.

Given the acceptance by the ACCC, Government, PHIO and the major industry groups of the code principles, whenever a dispute arises, even if the parties are not signatories, PHIO seeks to resolve the issue in accordance with the principles.

In addition, funds and hospitals must ensure that procedures are in place to look after members when these disputes arise. The Review of Portability Arrangements which was released as HBF Circular 688 in January 2001 contains a number of recommendations which are designed to provide for interim arrangements for pre-booked admissions in the event of contract cessation.

THE IMPLEMENTATION PROCESS FOR CHANGES TO BENEFITS

In mid December I received advice from three funds of their intention to introduce changes to fund benefits effective from 1 January 2002. At about the same time the funds sent letters to members likely to be effected by the changes and my office began to receive complaints from those contributors.

While I certainly appreciated the courtesy of the advice of these changes, it was immediately apparent to my office that the timing of these changes and the amount of notification given was likely to lead to complaints from fund contributors. We also identified that some of the changes would necessitate the adoption of transitional measures to be fair to contributors who had made arrangements or commitments based on the previous benefit arrangements. Had my office been given earlier notice of the impending changes we might have provided advice to the funds that would have avoided some of these complaints or at least ensured that the funds were better prepared to deal with the issues.

The implementation of these rule changes did raise the issue of what constitutes appropriate and adequate notice to contributors of rule changes. The *National Health Act 1953* does not specify any period of advance notice but does require that:

“.. a registered organisation must take all reasonable steps to notify each affected contributor, explaining (in plain English) the change before the change takes effect”¹.

In these cases the funds involved at least met this minimal requirement, but in my view, two weeks notice of significant changes to benefits, particularly at that difficult time of the year did not constitute adequate or fair notice to contributors. Indeed complainants frequently questioned how the fund could introduce the changes involved “without any notice”.

It is not possible to define a general rule about the extent of advance notice that might be reasonable. (It is very much dependent on the extent and significance of the change.) However, in my view, funds should aim to provide at least one month’s notice for any detrimental change. Where that is not legitimately possible the fund should ensure that appropriate concessional arrangements can be put in place for individual contributors caught by the changes.

For example in the case of one fund which announced reductions in hospital benefits to take effect from 1 January 2003 it was necessary to obtain assurances that:

- members who had booked prior to 1 January (for treatment to occur after that date) would receive benefits in accordance with the old cover;

¹ *National Health Act 1953*, subsection 78(7)

- members who were in a “course of treatment” at the time of the changeover would be covered for the remainder of that “course of treatment”; and
- those who decided to upgrade to a higher level of cover would have no waiting period for benefits equivalent to their old cover and the deadline for taking advantage of this provision would be extended beyond 1 January.

It is a credit to that fund that the fund readily agreed to implement these transitional protections for effected members. But it is regrettable that the fund did not anticipate such issues in its own planning for the changes, particularly given that these transitional issues have been raised previously in quarterly bulletins (and, as noted above, in the review of portability arrangements).

A number of funds may be planning rule changes to coincide with possible changes to premiums in April 2003. If my office receives early advice of possible changes we may be able to assist the fund in planning an effective implementation that takes account of genuine contributor issues.

INFORMATION PRODUCTS (BROCHURES)

While we accept that in some cases there can be a significant element of “wishful thinking” in some complainants’ interpretations of brochures, in many cases we agree that the presentation of information is at least unclear or ambiguous. This arises particularly where there are qualifications or limitations on benefits.

In some cases, while the availability of the benefit is well highlighted in the brochure, the qualification or limitation may not be readily apparent. In the worst examples the qualification or limitation is either not explained, appears in very small “fine print” or is explained in a completely different section of the brochure without cross referencing.

Product brochures are probably the key information product relied upon by contributors when making choices about health insurance. Funds have a clear responsibility (including under the *Trade Practices Act*) to ensure that information presented to potential contributors is not misleading. I expect that funds will act promptly to rectify any such problems, if it is necessary for me to bring such matters to their attention.

Some funds may be reviewing information products to coincide with possible changes to premiums and/or benefits in April. If so, I would advise that close attention be paid to the explanation of conditions, qualifications and limitations. It would be advisable also to closely review any information that is proposed to appear in “small print” to ensure that the print is not unduly small and that it is adequately referenced. My office would be happy to provide a view on any draft material.

Complaints (Problems, Grievances & Disputes) by Health Fund 1 October to 31 December 2002

| Name of Fund | Total number of complaints (1) | % of total complaints | Total number of disputes (2) | % of total disputes | % Health fund Market share (3) |
|--|-----------------------------------|--------------------------|---------------------------------|------------------------|-----------------------------------|
| ACA Health Benefits Fund | 0 | 0.0 | 0 | 0.0 | 0.1 |
| AMA Health Fund Limited | 0 | 0.0 | 0 | 0.0 | 0.1 |
| Australian Health Management Group Limited | 49 | 7.7 | 7 | 6.5 | 2.7 |
| Australian Unity Health Limited | 11 | 1.7 | 1 | 0.9 | 2.6 |
| CBHS Friendly Society Limited | 3 | 0.5 | 0 | 0.0 | 1.1 |
| Cessnock District Health Benefits Fund | 0 | 0.0 | 0 | 0.0 | <0.1 |
| Credicare Health Fund | 1 | 0.2 | 1 | 0.9 | 0.4 |
| Defence Health Benefits Society | 4 | 0.6 | 0 | 0.0 | 1.4 |
| Federation Health | 1 | 0.2 | 0 | 0.0 | 0.2 |
| GMHBA Limited | 8 | 1.3 | 3 | 2.8 | 1.3 |
| Goldfields Medical Fund (Inc.) | 6 | 0.9 | 2 | 1.9 | 0.8 |
| Grand United Corporate Health Limited | 1 | 0.2 | 0 | 0.0 | 0.3 |
| Grand United Health Fund Pty Ltd | 2 | 0.3 | 0 | 0.0 | 0.4 |
| HBA Health Insurance(4) | 55 | 8.7 | 10 | 9.3 | 9.6 |
| Health Care Insurance Limited | 0 | 0.0 | 0 | 0.0 | 0.1 |
| Health Insurance Fund of W.A. | 2 | 0.3 | 1 | 0.9 | 0.4 |
| Health-Partners Inc. | 4 | 0.6 | 0 | 0.0 | 0.6 |
| Healthguard Health Benefits Fund Limited | 0 | 0.0 | 0 | 0.0 | 0.1 |
| HBF Health Funds Inc. | 25 | 3.9 | 5 | 4.6 | 8.5 |
| Hospitals Contribution Fund of Australia Limited | 24 | 3.8 | 4 | 3.7 | 7.7 |
| IOOF Health Services Limited | 0 | 0.0 | 0 | 0.0 | 0.2 |
| I.O.R. Australia Pty Limited | 27 | 4.3 | 5 | 4.6 | 1.2 |
| Latrobe Health Services Inc. | 3 | 0.5 | 0 | 0.0 | 0.5 |
| Lysaght Peoplecare | 1 | 0.2 | 0 | 0.0 | 0.4 |
| Manchester Unity Friendly Society In N.S.W. | 15 | 2.4 | 1 | 0.9 | 1.3 |
| Medibank Private Limited | 206 | 32.4 | 41 | 38.0 | 29.6 |
| Medical Benefits Fund of Australia Limited | 103 | 16.2 | 9 | 8.3 | 16.6 |
| Mildura District Hospital Fund Limited | 0 | 0.0 | 0 | 0.0 | 0.3 |
| Navy Health Limited | 1 | 0.2 | 0 | 0.0 | 0.3 |
| N.I.B. Health Funds Limited | 55 | 8.7 | 12 | 11.1 | 5.1 |
| NRMA Health Pty. Limited | 15 | 2.4 | 3 | 2.8 | 1.9 |
| Phoenix Health Fund | 1 | 0.2 | 1 | 0.9 | 0.1 |
| Queensland Country Health Limited | 1 | 0.2 | 0 | 0.0 | 0.2 |
| Railway & Transport Emp'ees Friendly Soc. H.F | 0 | 0.0 | 0 | 0.0 | 0.3 |
| Reserve Bank Health Society | 1 | 0.2 | 1 | 0.9 | <0.1 |
| SA Police Employees' Health Fund Inc. | 1 | 0.2 | 0 | 0.0 | 0.1 |
| St Luke's Medical & Hospital Benefits Ass | 3 | 0.5 | 1 | 0.9 | 0.4 |
| Teachers Federation Health Limited | 2 | 0.3 | 0 | 0.0 | 1.7 |
| Queensland Teachers' Union Health Fund | 1 | 0.2 | 0 | 0.0 | 0.4 |
| Transport Friendly Society Limited | 0 | 0.0 | 0 | 0.0 | 0.1 |
| United Ancient Order of Druids Victoria | 1 | 0.2 | 0 | 0.0 | 0.1 |
| United Ancient Order of Druids G/L NSW | 0 | 0.0 | 0 | 0.0 | <0.1 |
| Western District Health Fund Ltd | 2 | 0.3 | 0 | 0.0 | 0.8 |
| Total for Registered Funds | 635 | 100.0 | 108 | 100.0 | 100.0 |

1. Complaints = Problems, Grievances & Disputes.
2. Disputes required the intervention of the Ombudsman and the fund.
3. Source: Population as covered at as 30 June 2002, PHIAC Annual Report 2001/02
4. HBA Health Insurance, previously referred to as AXA Australia Health