

MEDIA RELEASE

Will Medibank put profits before people now that it is a listed company?

Claims that ratcheting down claims expenses will be the primary tool used by Medibank CEO George Savvides to lift underwriting margins should send shivers down the spine of Medibank Private's customers.

"With the stock now trading publically at around 22.9 times estimated price earnings ratio, Medibank's management will be under pressure to deliver very substantial returns to shareholders and it is worrying that there has been such a focus on slashing costs," said hirmaa CEO Matthew Koce.

"Most concerning is Medibank's intentions to selectively contract with hospitals and squeeze benefit pay-outs. While putting hospitals in the gun may financially benefit investors in the short term, it will likely make it much more difficult for families who depend on the company for their healthcare".

"When it was operating as a not-for-profit, Medibank used to put an enormous emphasis on putting its policy holders first, now it increasingly looks obsessed with cutting costs to drive profits."

"Health insurers should be striving to pay out greater proportions of benefits to members, not less" said Mr Koce, "hirmaa funds, which are member-owned and community based insurers, do exactly that."

The Medibank prospectus detailed that Medibank's lapse rate in policyholders has been consistently increasing, up to 10.3% of all Medibank members in 2014.

"I think Medibank Private's high lapse rate is especially significant. It would seem to indicate that a large number of Medibank customers are unhappy and are increasingly switching to other health insurers," said Mr Koce.

"When it comes to health insurance, the bigger for profits are not always better. It appears that Australians are increasingly becoming aware of the benefits that come with community based health insurers that exist only to serve their policy holders."

Member-owned and community-based health insurers have grown faster than the industry average in recent years. hirmaa funds in particular have enjoyed a compound annual growth rate of 4.17% over the past five years, compared to the industry at 2.68%.

"This is certainly a trend we expect to continue and even accelerate post the Medibank Private IPO" said Mr Koce, "In George Savvides' own words, Medibank is looking to *'flex its muscle'* and move from *'health payer to health player'*. It is likely that this will be detrimental to Medibank's customers and it will be interesting to see if Medibank's lapse rate continues on its upward trajectory".

hirmaa is the peak industry body for eighteen member-owned and community-based private health insurers. In all, the hirmaa funds provide private health insurance for over one million Australians.

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