



Transcript

Medibank may be floated

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ALAN KOHLER: With all the trauma and political grandstanding of the T3 process and the failed Snowy Hydro float, the Federal Government could be forgiven for feeling a bit worried about what could go wrong with its plan to flog Medibank Private. While a price tag of up to \$2 billion has been discussed, and there's supposed to be a list of eager buyers, little has actually been decided. But very soon the Government will have to make some decisions - like how to sell the business and to whom? Kathy Swan reports.

SENATOR NICK MINCHIN, FINANCE MINISTER: We want to make the right decision as to which way to sell the business.

MICHAEL VINE, STANDARD & POOR'S: I think the private health insurance industry in Australia is more likely to remain biased to mutual ownership.

ROHAN MEAD, MD, AUSTRALIAN UNITY: The mechanism which is employed by Government, in my view, should support competition.

KATHY SWAN: Nursed back to good health in an industry that also is keeping a stable pulse, Medibank Private is ready for market.

NICK MINCHIN: Some time in October the Government would be in a position to make a decision about the method and timing of sale and, of course, by that time we'll know if we're having a retail offering of our Telstra shares as well.

KATHY SWAN: Medibank Private holds the largest share of Australia's health insurance market, at about 30 per cent. MBF holds the next biggest slice, at over 19 per cent, with British owned BUPA Australia - better known as HBA - claiming around 10 per cent. That leaves another 30 or so funds to divvy up the rest.

NICK MINCHIN: Medibank Private is a very significant business - the biggest health insurance provider - and I and other members of the Government would like to be a position to offer those shares generally to the public if that does make sense commercially and in terms of the structure of this industry.

KATHY SWAN: To sell or to float Medibank Private - that's the question that'll be keeping the Government's appointed business advisors, Carnegie Wylie, busy for a little while yet.

NICK MINCHIN: My personal prima facie preference would be for a public offering of those shares in Medibank Private, but I will be guided by - and the Government will be guided by - John Wylie's professional advice on the best way to sell this business and meet all our objectives.

KATHY SWAN: Figuring out the advantages of one form of sale over the other is keeping plenty of minds in the industry occupied.

MICHAEL VINE: I think a trade sale or a break-up may cause further consolidation down the track as other parties perhaps try to catch up and gain increasing stake in some stakes, where I think a float would probably maintain more stable dynamics in the industry, although with a little more pressure on returning increasing shareholding returns.

NICK MINCHIN: If we were to go down the trade sale path we would be considering what, if any, conditions we are going to impose on that. You'll see some indication of that perhaps when we bring the legislation into the Parliament as well.

ROHAN MEAD: It would seem to me there are dangers in methods of sale that are not by public float.

KATHY SWAN: Rohan Mead is managing director of Australian Unity, which holds about 3 per cent of the health insurance market, and he does not want to see Medibank Private broken up and sold off.

ROHAN MEAD: It's very hard for me to see any logically compelling reason why taking the single largest competitor and selling it to the next two largest competitors is a compelling argument that sees competition advanced. It may be, if you are either the second or third largest competitor, but hard to see from my perspective any true community advantage.

KATHY SWAN: That third largest competitor, MBF, has made plain it's wish to buy Medibank Private, or parts of the fund, in a trade sale, teaming up with perhaps the second largest fund, BUPA. But this article in *The Australian* newspaper last week, calling for a trade sale and break-up of Medibank Private, prompted the Minister to write that he's "yet to be persuaded that Medibank Private should be broken up and sold off in bits."

NICK MINCHIN: That letter was written in response to public suggestions that Medibank Private should be sold privately and broken up, and I did want to make it clear to the public that the Government has no pre-ordained view about Medibank Private. It is our intention to sell it.

KATHY SWAN: MBF Managing director Eric Dodd was not available for comment this week. Medibank Private is on a few wishlists. There's strong speculation other health care businesses, such as the Mayne spin off Symbion Health - which specialises in diagnostics and pharmacies - would love to add the insurance business as a new growth platform.

MICHAEL VINE: We see Medibank Private as being financially strong. It's got a very good franchise in a number of states, improving profitability and strong capital, but it had its operational inefficiencies in the past, which are gradually improving.

KATHY SWAN: Certainly the fund's fortunes have turned around.

GEORGE SAVVIDES, MD, MEDIBANK PRIVATE: For the financial year ending June 2002, a loss of \$175 million. A very poor result for Medibank Private.

KATHY SWAN: The health fund's return to financial health came with a profit of \$130 million last year and there's a generally good outlook for the sector this year. But George Savvides is reportedly seeking further cost cuts and improved efficiencies, including better deals with hospitals and hospital groups - as is the rest of the industry.

ROHAN MEAD: Well today, to put the top-of-the-range pacemaker into a patient as a funder, I need to find 50 other patients who do not claim in that year. Ten years ago I only needed to find 10 other members of the health fund who were not claiming in that year to fund the top of the range pacemaking device.

KATHY SWAN: Improved medical technology and an ageing population are contributing to a medical inflation rate of around 8 per cent - twice the rate of general inflation.

ROHAN MEAD: We need to find more and more non-claiming members to afford that. If we can't, we then have to put up our premiums to afford that on behalf of that single member.

MICHAEL VINE: There is natural pressure to maintain - sorry, to increase premiums each year roughly in line with medical inflation. Last year the average premium rate increase was lower and that's really because the industry has built up reserves that will be eaten into slightly.

KATHY SWAN: And guess what - wishful thinking about halting premium rate rises is probably just that.

ROHAN MEAD: Well, because of the reasons that I mentioned, ageing population, medical innovation - those sorts of things - chronic disease, I don't see a situation where health insurance premiums are going to reduce in absolute terms.

KATHY SWAN: Those premiums are one of a few rising costs already causing some financial indigestion for 'mums and dads'-type investors.

DEAN FERGIE, EXECUTIVE DIRECTOR, OPIS CAPITAL: At the moment, to try to get a float away it's not ideal because we've got interest rates going up, we've got a volatile market, we've had some really disappointing earnings this season already, so, yep, investors are wary.

KATHY SWAN: Dean Fergie of fund managers Opis Capital says timing will be important, especially with T3, but there are bigger buyers.

DEAN FERGIE: There's certainly a lot of money in the market from super funds and big industry funds that are looking for big quality investments that they're looking at investing for the long-term.

NICK MINCHIN: You certainly wouldn't want to have an IPO of Telstra and an IPO of Medibank Private out there at the same time, but the advice to me is there is a fair bit of money searching for a home when it comes to equities markets

KATHY SWAN: And as we learnt from the Snowy Hydro, when politics and markets collide it's not always that simple.

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VIDEO:

The Federal Government will soon have to decide how to sell Medibank Private and to whom.

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