Hazards in the Corporatisation of Health Care

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Introduction

For many years, Australian Federal goverments have been frustrated at restrictions to trading the care of sick Australians in the international market. Often, the Foreign Investment Review Board (FIRB) will initially put out a welcoming mat for multinationals only to then find that the companies' overseas misdemeanours are publicised. The plans of these companies to dominate the Australian health care system are thus thwarted. Recent trade agreements will, however, make the large corporations even harder to resist.

The most recent move in corporatising our health care occurred in October 2003 when Mayne Hospitals were purchased by a consortium of three venture capitalists centred on CVC Asia Pacific. This is the Asian Venture Capital arm of Citigroup, the giant US financial conglomerate. The proportion of shares held by partners, Ironbridge and Singapore CIG, was not disclosed. The new health group is called Affinity Health.[1]

Citigroup has a US health care division that not only does business with health care corporate giants, but advises them. It even attends board meetings. Like the health care corporations it advises, Citigroup has been caught up in a series of spectacular scandals and frauds.[2] In both health care and financial services, the trust and wellbeing of those the corporate giants claimed to serve was exploited.

The purchase of Mayne hospitals in Australia should be examined against the background of repeated attempts to corporatise our health system and use market-focussed US multinationals to drive the process. In the USA, strong profit pressures with large incentives for managers combined with financial arrangements which bind doctors to the corporate mission have been both a secret to economic success and an inducement to adopt unacceptable practices.[3,4] Developments in Australia will need to be monitored carefully, including the relationships between this new company and doctors.

Background : US Corporations in Australian Hospitals

In his pessimistic 1992 book "Remission Impossible"[5], Ron Williams warned that government economists would see multinational health care giants from the USA as the answer to our health care problems. He predicted that they would soon impose their practices on our health system. Fortunately, this has not yet happened and this is due to Australian citizens publicising the scandals and frauds surrounding these companies and forcing authorities to act.[6] Large and successful corporations in each US health market sector have committed significant offences and they have targeted Australia.[7]

In 1992, National Medical Enterprises (NME) entered Australia.[8] At the time, authorities appeared to ignore its alleged practices of deceptive marketing, paying bounty hunters for heads on beds, kickbacks to doctors, deceptively prolonging admissions and massive profits inflated by giving unneeded treatment. Children who rarely require hospital admission were said to be targeted because their insurance lasted longer and paid better. Many hundreds, or possibly thousands, were needlessly detained in psychiatric hospitals for long periods.[9] It was only in 1995, after the company had pleaded guilty and paid over $1 billion to settle criminal and civil actions, that authorities acted to force it out of Australia.[8]

This company, NME, changed its name to Tenet Healthcare.[10] It is now the subject of another major fraud scandal in the USA involving kickbacks to doctors, deceptive billing and unnecessary surgery. One hospital has already paid US $54 million to settle government allegations that it carried out invasive cardiac procedures including bypass surgery on people with normal hearts. In the region of one thousand past patients, including relatives of 167 deceased, are suing. Investigations are ongoing.[3,4,11]

In 1997, the US giant Columbia/HCA's[3,12] plans to invest $1 billion in private hospitals in Australia were welcomed by many of our politicians. These plans came unstuck when citizens publicised the company's disturbing practices.[13] The final straw came when the FBI swept through its US hospitals seizing documents as the first step in unravelling fraud for which the company was ultimately fined US $1.7 billion.[14]

In late 1997, Sun Healthcare[3,15], a nursing home company, bought Australian hospitals with plans to expand into nursing homes.[16] Sun had built its empire by providing profitable step down care to hospital patients in its nursing homes.[17] Dr Wooldridge, the then federal health minister, immediately promised to revolutionise our system by this means.[18,19]

Aged care authorities were advised of the way in which US nursing home chains had compromised care in aged care facilities by cutting staff. They were told of allegations of fraud and of the concerns about charging practices for step down care in the USA. Sun Healthcare subsequently did not enter aged care in Australia. US authorities moved to prevent rorting of Medicare by changing the method of payment. Sun Healthcare entered bankruptcy in both countries and sold its Australian interests.[18,20,21]

In late 1997, HealthSouth[22], the giant US rehabilitation chain, bought the Cedar Court Rehabilitation hospital in Melbourne. In March 2003, HealthSouth was raided by the FBI in the first stage of an investigation of what the company itself now acknowledges as a US $4 billion fraud.[23]

Seventeen senior staff have pleaded guilty to fraud and its chairman faces 85 fraud charges. The Australian arm of the company is alleged to have participated in the international part of the fraud.[24] Since March 2003, Victorian authorities have been briefed on these events. A year later Victoria has not invoked their probity regulations and there is no indication of plans to do so.[7]

Citigroup

Citigroup[2], the largest financial conglomerate in the world, was formed in 1998 by the merger of the Citicorp and Travellers/ Salomon Smith Barney financial giants.[25] Special US legislation was passed to permit conflicts of interest that had previously been forbidden.[26,27] Although the "Citi" name was retained, the later group dominated and soon took control.[28]

Both groups had a chequered track record that continued after the merger. They were allegedly major participants in a series of scandals and frauds since the early 1990s. This included claims of money laundering, brokerage fraud, bond rigging, municipal bond yield burning, securities price fixing, illegal covering up of client losses in Japan, and mortgage fraud. They ultimately paid hundreds of millions of dollars in fraud settlements.[2,29]

More recently, Citigroup has been a central player in a complex series of scandals. The explosive technology/dotcom bubble and multi-trillion dollar meltdown which followed are often attributed to deceptive analysts' reports and the advice given to start-up companies by bankers and analysts who attended board meetings.[30] Investors were advised to take up share offerings in companies with doubtful prospects and then to hold on to shares when they collapsed. These practices enriched financial institutions at the expense of the investors whom they claimed to serve. Citigroup was caught up in this and paid the largest share of a US $1.4 billion fine to settle this and related frauds. [2,31,32]

It has been further alleged that Citigroup was richly rewarded for assisting others including Enron, Worldcom and Adelhia in defrauding their investors. They used complex structured finance strategies to make losses appear as profits on balance sheets.[2,33] Citigroup has so far paid an additional US $170 million in fines for this. [34]

Most analysts believe the fines to date are no more than a slap on the wrist. [35] Share holders are pursuing these financial institutions for US $30 billion compensation through the civil courts, US $10 billion of this from Citigroup. [36]

While Citigroup has been a prominent offender many other large financial conglomerates have behaved similarly. [37] The response of many of those involved shows a remarkable degree of denial. They often attacked the messenger, looked on the frauds as isolated events, blamed investors for not being willing to accept risk, and accused those who prosecuted the case of an attack on capitalism and democracy. [38] They did not appear to see themselves as culpable and it therefore seems quite possible that they will re-offend, exactly as health care corporations in denial did.

In 2002, Citigroup was listed among CorpWatch's 10 worst corporations. Despite its claims to be environmentally responsible, Citigroup also received an environmental award as the worlds most destructive bank in 2000. [39]

Citigroup and HealthCare

Salomon Smith Barney [40] has long had an active health care division that finances corporate health care enterprises and advises them. They hold an annual conference for the health care corporate business community. Bankers and analysts regularly attended client's corporate board meetings.

In 14 of the 18 years during which an alleged US $4 billion fraud was perpetrated, Smith Barney were HealthSouth's bankers and advisers. This brought Salomon Smith Barney US $8 billion in HealthSouth business. In 1999, USB Warburg poached most of these profitable bankers and the analysts who worked with them. They took HealthSouth's business as well. [2,41,42]

The described conduct of these bankers and analysts is similar to that for which Citigroup and USB Warburg were required to contribute to a US $1.4 billion fine. Witness statements quoted by the press suggest that these bankers were possible conspirators in the HealthSouth fraud. These bankers have been investigated by federal government committees. Both the bankers and USB Warburg face shareholder suits. The investigations are on-going and to date criminal charges have not been laid against any of these bankers. USB Warburg advises certain Australian health care corporations.[41,43]

The Purchase of Mayne Hospitals

It is revealing that when CVC Asia Pacific was founded in 1999 it was proudly promoted as a member of Citigroup and as wholly owned by Citigroup. [44] Almost every Australian newspaper described this association when reporting the company's activities. As the scandals involving Citigroup in the USA unfolded, the press generally stopped reporting this association. [2] During the latter part of 2002 and into 2003, CVC Asia Pacific purchased poorly performing groups with a view to making them profitable and then floating them on the stock market. Wall Street scandals have resulted from similar situations in the USA. I found just one oblique reference to their association with Citigroup.[45] This is at a time when it may have been valuable for potential investors to have heard of Citigroup's alleged past activities.

During 2003, there were many reports in Australia describing the purchase of Mayne hospitals. None appeared to mention the association with Citigroup or its track record in health. In contrast, the international press regularly linked CVC Asia Pacific to Citigroup when they reported on these matters.

The Management Buyout

Citigroup has been pressing Mayne to split off its hospitals as a separate entity since 1999.[46] Management buyouts are used by venture capitalists in order to create strong incentives for existing management. Typically, existing management buy a 10-20% investment in the company. They will lose heavily if the company does poorly but make a killing if it is doing well when the company is floated. There is a strong incentive driving management towards short and medium term profit and perhaps to adopting profitable US practices. CVC Asia Pacific is targeting a 30% profit from the hospitals within three years.[47] This is a very ambitious project given the restricted funding provided in our health system.

It is possible that there will be few Australian buyers when the company is sold on. CVC may be looking to international trade agreements to open the market to US corporate buyers.

US Influence

In the USA, large profits have been made by the exploitation of vulnerable sections of the patient population and the funding system. Practices have included exploitative pricing of the uninsured with no bargaining power, deskilling and understaffing facilities, providing only profitable services, overservicing, providing care to people who do not need it and defrauding Medicare and HMOs, as well as simple old-fashioned accounting fraud. [3,48]

Doctors could have prevented a significant amount of this. They were often successfully kept on side by inducing them to enter into profitable financial arrangements. These included payment for secretaries and rooms, paying to relocate doctors to their facilities, loans for house purchases, advertising, promotion as authorities at medical meetings, purchase of expensive equipment, support of research, joint ownerships in businesses, shares in the company, and simple illegal kickbacks.[8,49] These proved effective in making doctors beholden to the company and compromising professional cohesion and integrity. Not all were classed as illegal kickbacks.

In addition, promotion and career prospects in corporate hospitals have been linked to financial performance and compliance. Those who have objected to corporate practices have been marginalised and sometimes forced out of the hospitals using peer review processes to ruin their careers.[8,50] Managers, eager to reach their bonus targets, have pressured doctors and promoted team players.

US businesses may see these practices as legitimate, as do some Australians. However, while such practices are not unknown in Australia, our profession has largely resisted them. Some companies have sought to buy the allegiance of doctors by using shares in part payment for their practices. The new Affinity Health will presumably be eager to please the doctors whom Mayne has alienated. They may not go to US lengths but doctors do need to be aware of these issues.

Conclusions

At the root of the US health system there is a strongly competitive market built around growth, profit pressures, the pursuit of markers of profitability, large financial incentives for management, and a focus on financial arrangements binding doctors to the corporate profit mission. The nature of corporate medicine encourages resources to be diverted from patient care to meet market priorities. We must remain vigilant to prevent this happening here.

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