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GOVERNANCE



UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Prof Alex van den Heever
Chair in the field of Social Security
Wits School of Governance
alex.vandenheever@wits.ac.za

TARIFF DETERMINATION IN THE SOUTH AFRICA PRIVATE HEALTH SYSTEM

Presentation for...

**Health Market Inquiry
Competition Commission**

13 October 2017



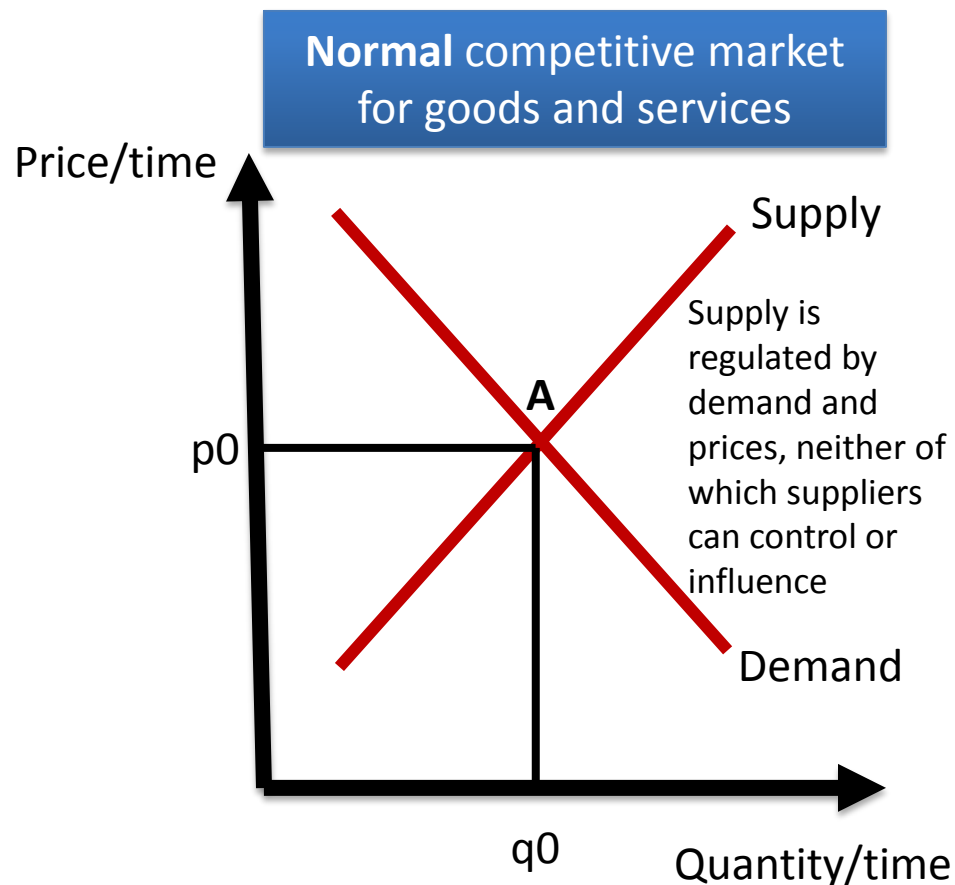
This talk

- Proposed framework for setting fee-for-service and related prices in the South African private health system
 - Brief overview of the problem
 - Critical examination of alternative approaches
 - Proposed framework sufficient to address systemic market failures addressing prices and purchasing

THE PROBLEM

Where does the market failure arise from?

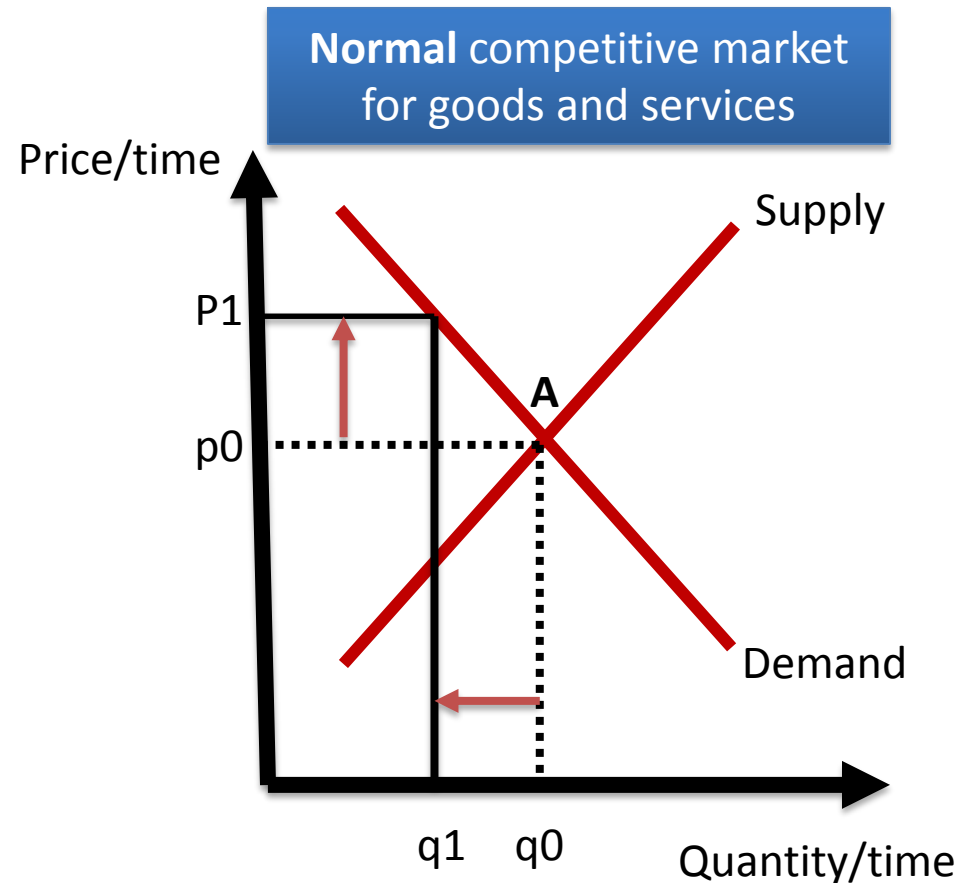
- While health insurance (whether public or private) is essential for financial risk protection (against **catastrophic health expenses**), and thereby enables access to needed healthcare services, it has knock-on (externality) effects on pricing decisions and overall costs (when utilisation is taken into account)





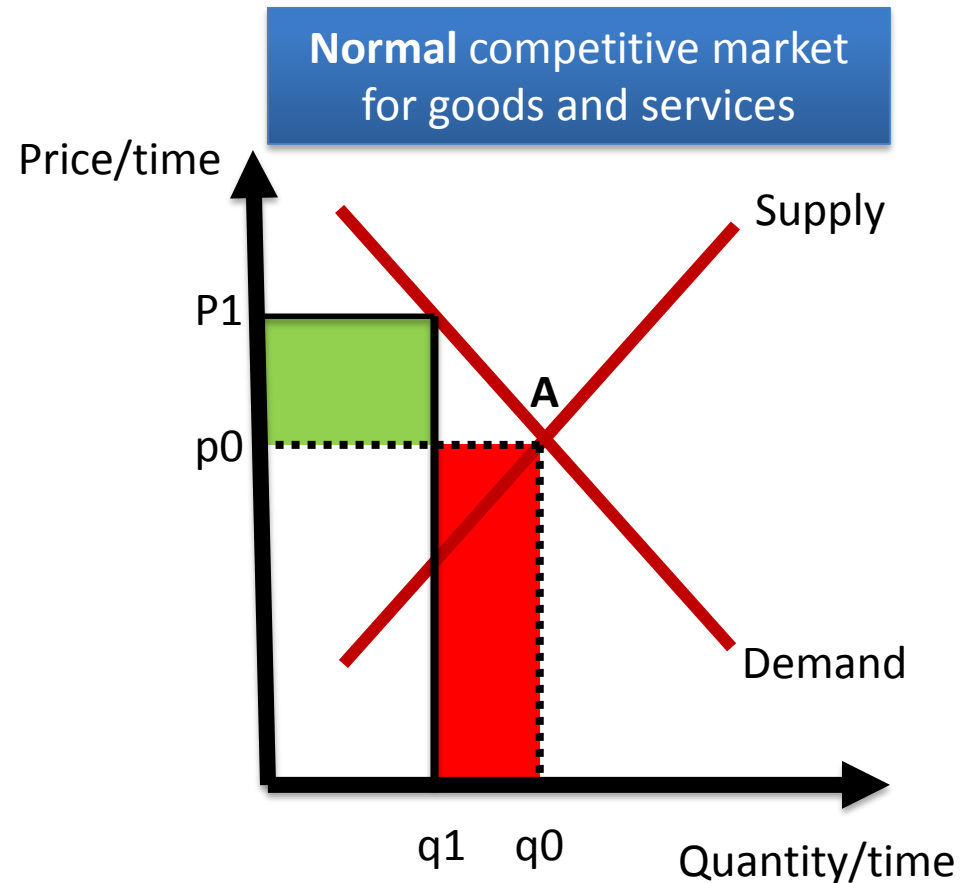
Where does the market failure arise from?

- When prices **increase** (from p_0 to p_1), the quantity demanded **decreases** (from q_0 to q_1)



Where does the market failure arise from?

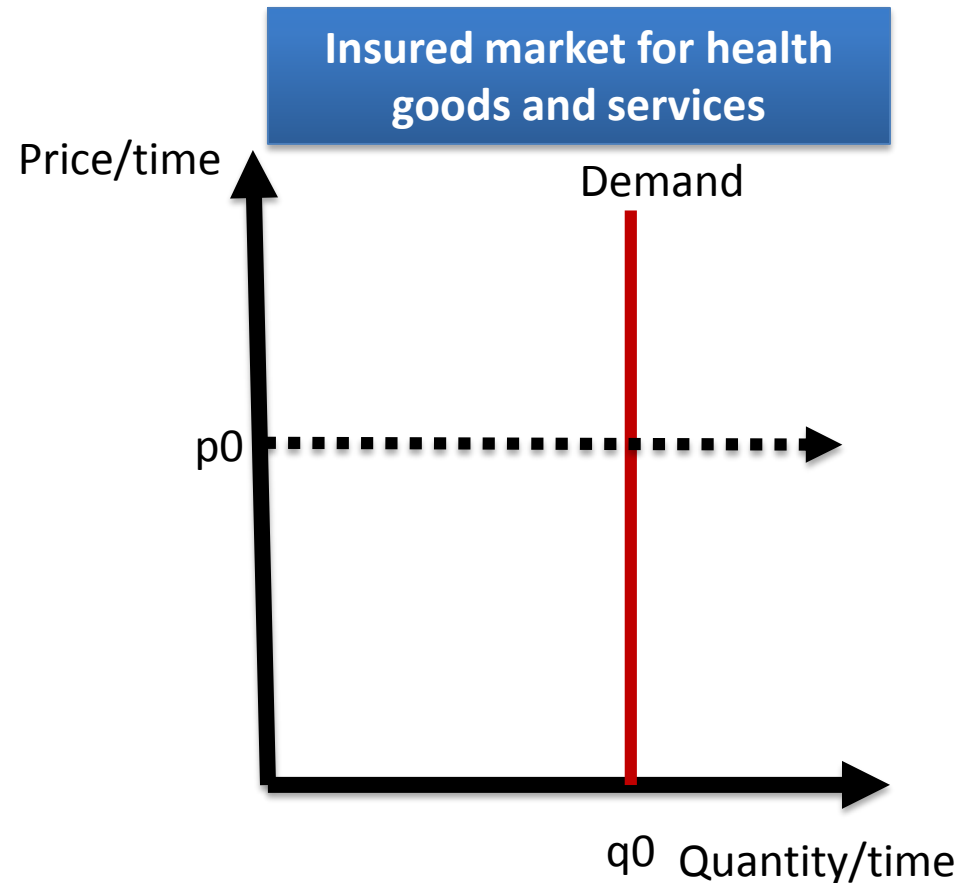
- If the area gained (green rectangle) is less than the area lost (red rectangle), suppliers will need to shift prices to the equilibrium point A where both consumer and supplier satisfaction is optimised





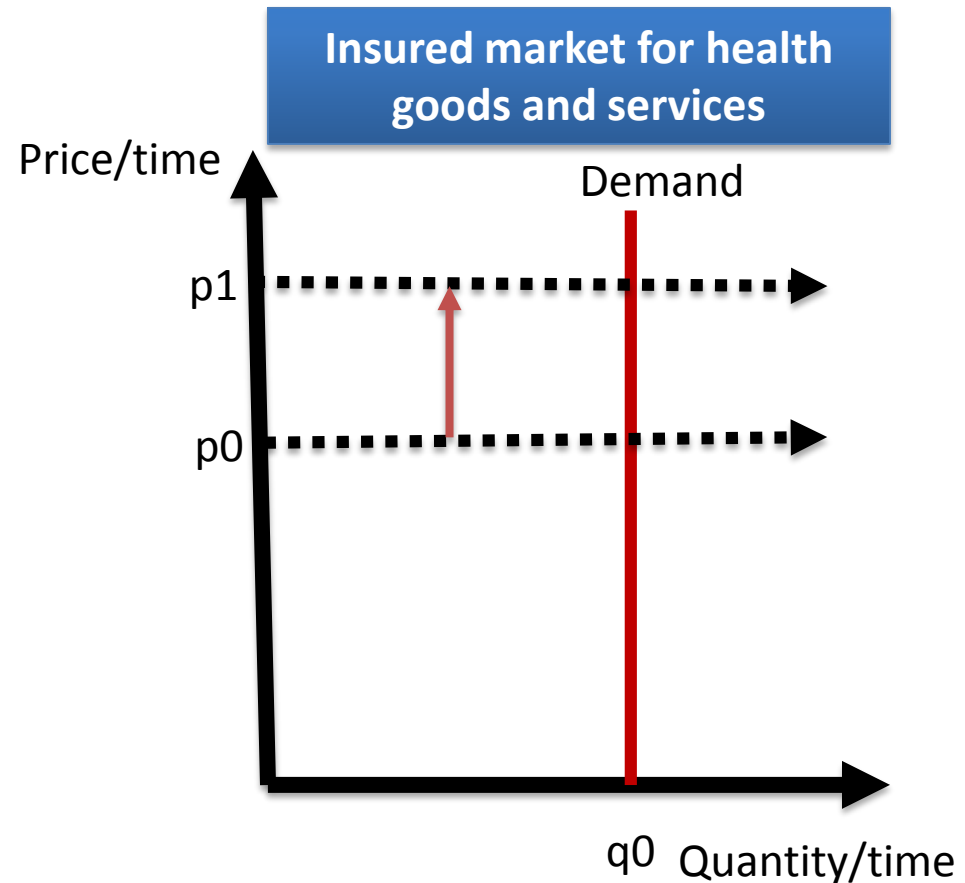
Where does the market failure arise from?

- With health insurance, *price signals are lost and the relationship between price and demand broken – with both price and demand determined independently of the preferences of final consumers*



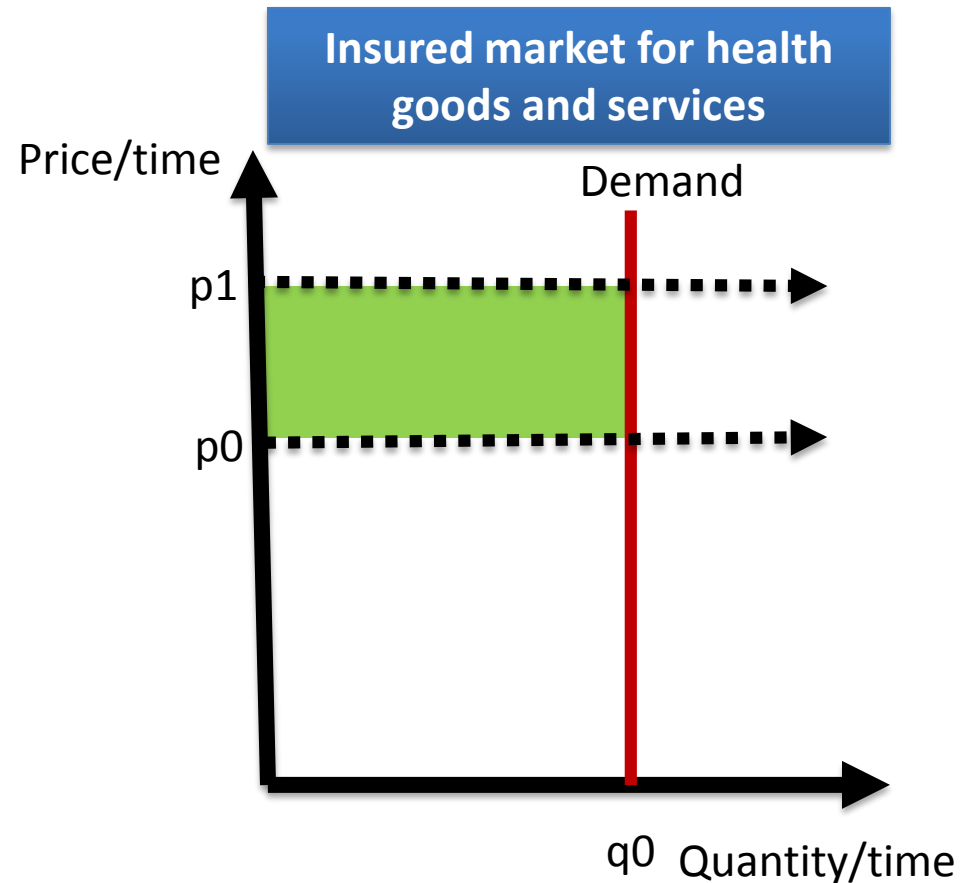
Where does the market failure arise from?

- If prices rise (to p_1), demand remains unchanged (q_0)



Where does the market failure arise from?

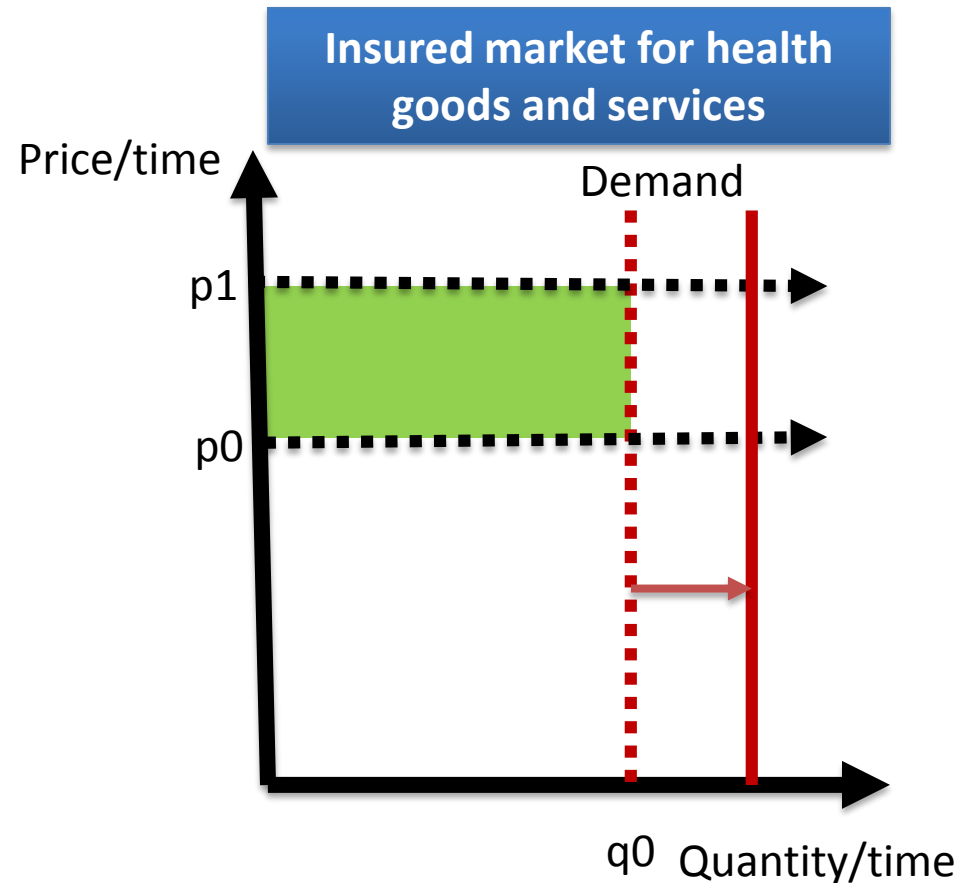
- And, assuming suppliers were happy with the costs at p_0 , **profit** from the increased revenue (red rectangle)





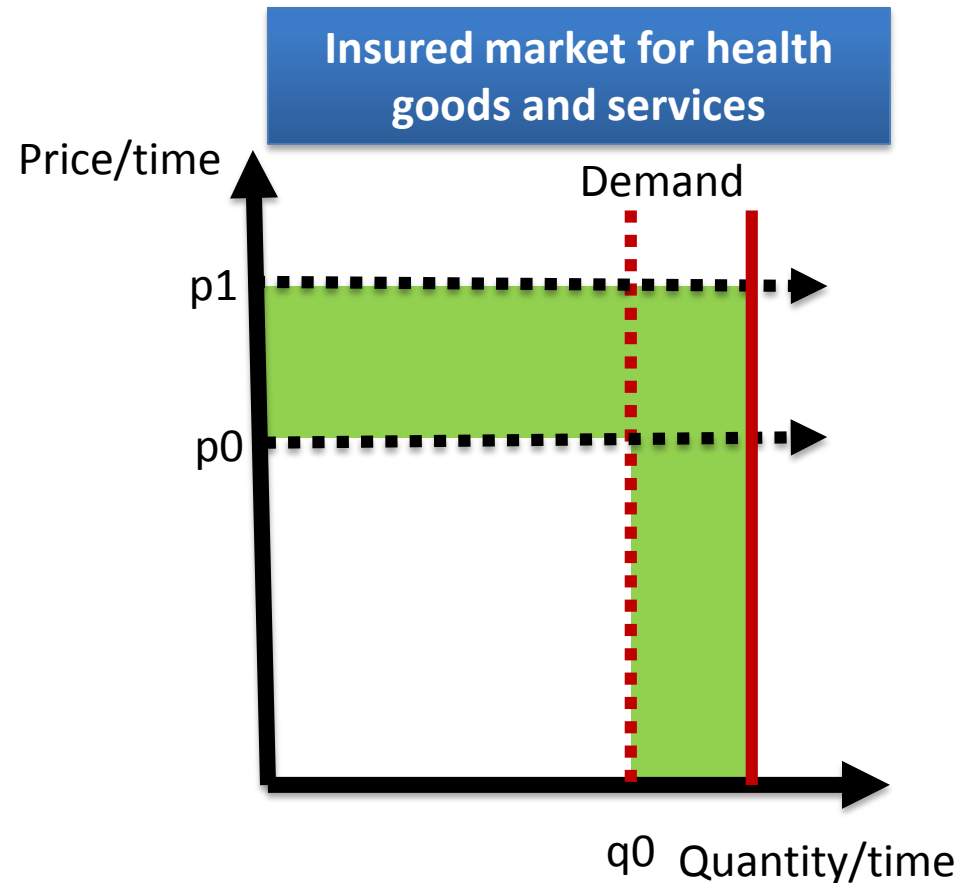
Where does the market failure arise from?

- Through the ability to influence **demand**, suppliers can benefit from both **price** *and* [unnecessary] **demand** increases



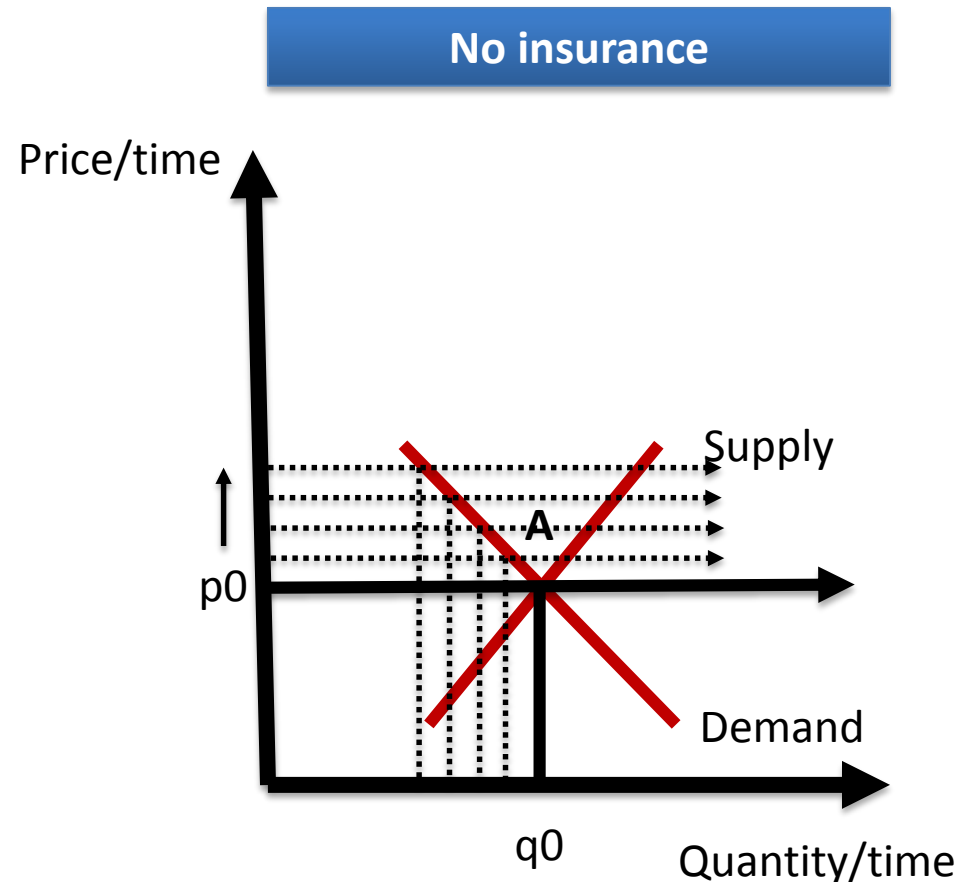
Where does the market failure arise from?

- Thereby improving suppliers' revenue over costs (total revenue growth indicated by the shaded green area)



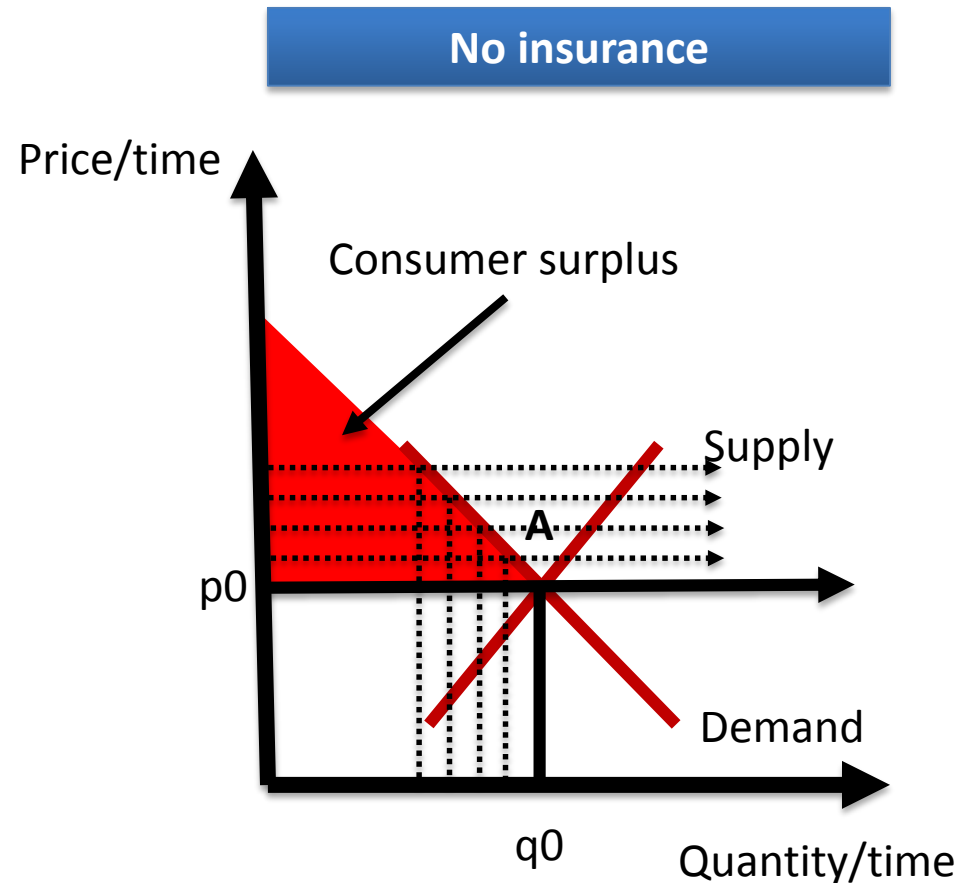
What about the out-of-pocket market?

- Without insurance, pricing is likely to segment by income – presenting an array of prices set at the discretion of suppliers and their assessment of a consumer's ability-to-pay



What about the out-of-pocket market?

- Allowing for the maximum extraction of the **consumer surplus (red triangle)**
- Which is the benefit consumers get from a competitive Unsegmented) market





Summary

- Health insurance markets distort market signals, removing consumers from exercising their preferences in relation to both prices and demand
- The absence of consumer regulation of price and demand transfers the management of these risks to insurers and, to the extent they are not managed by insurers, to the discretion of suppliers (healthcare service providers)



- The extent to which insurers concern themselves with managing the risks associated with price and demand depends on the extent to which these are unavoidable liabilities – either through regulation (such as PMBs) or competition on coverage



- Where the liability for these risks is avoidable, insurers will restrict their interest in managing prices to insured benefits only – with the rest for the account of the insured who are expected to “negotiate” separately with healthcare providers

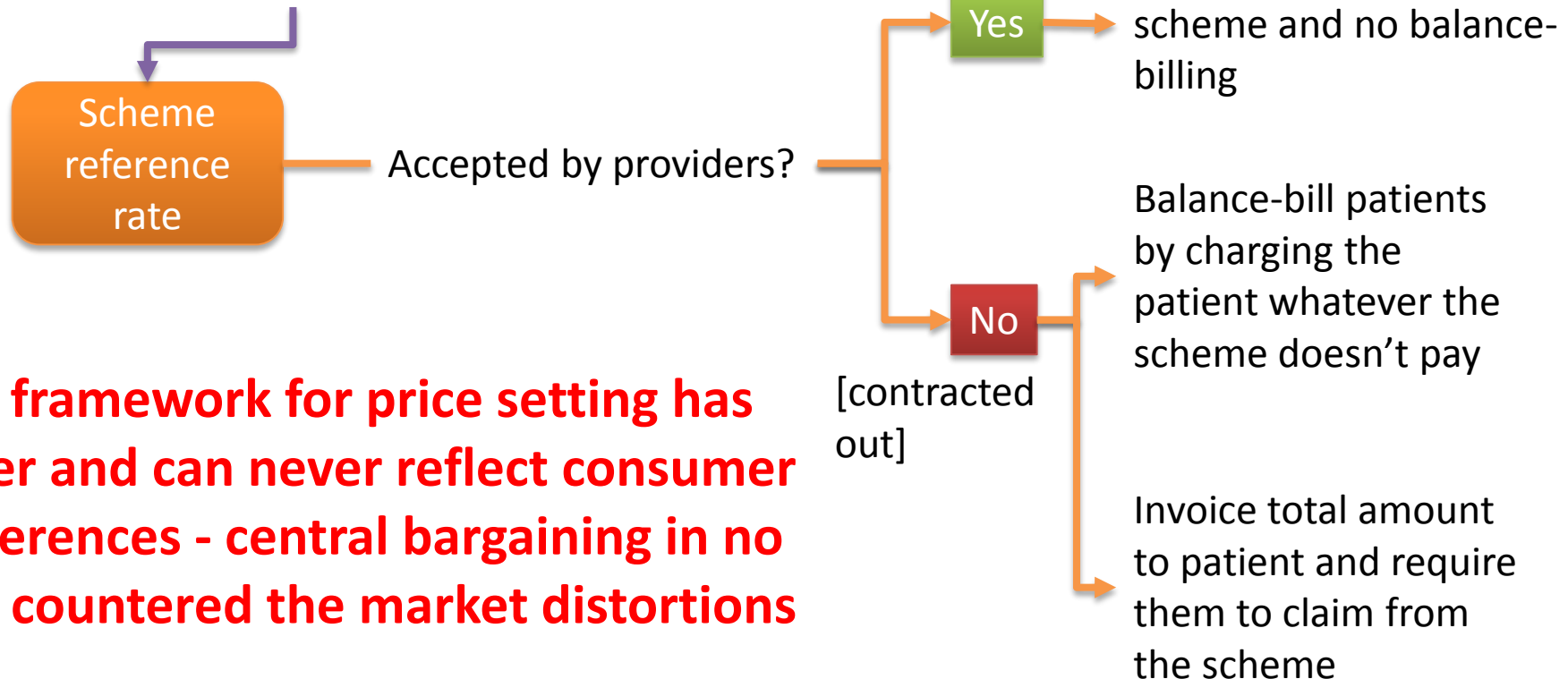


- Balance-billing makes risk avoidance easier for health insurers – as only high claimers (a small number relative to all insured) ever know the true predicament of all the insured (i.e. the vfm of benefits) – this knowledge does not however generate a competitive threat as none of the competition have any interest in attracting high claimers



How have prices for health professional been determined to date in South Africa?

Various versions of collective bargaining until 2007, thereafter “inflation” - adjusted versions of the last published tariff schedule





Hospitals

- The market is highly concentrated with even large administrators unable or unwilling (due to conflicts of interest) to exercise countervailing market power to bring down costs on two scores:
 - To internalise price, demand and quality into their provider contracts
 - To negotiate fee-for-service prices that penalise inexplicable demand changes

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WHAT ARE THE ALTERNATIVES?



Two broad options

- Centrally determined scheme reference tariffs
 - Won't resolve the balance-billing problem
 - Creates no incentives for insurers or providers to contract more efficiently
 - As a process will be susceptible to lobbying
- Centrally determined final tariffs
 - Internalises the balance billing problem
 - Would require a carefully considered governance model to ensure a fair result
 - Will incentivise volume-based contracting with insurers

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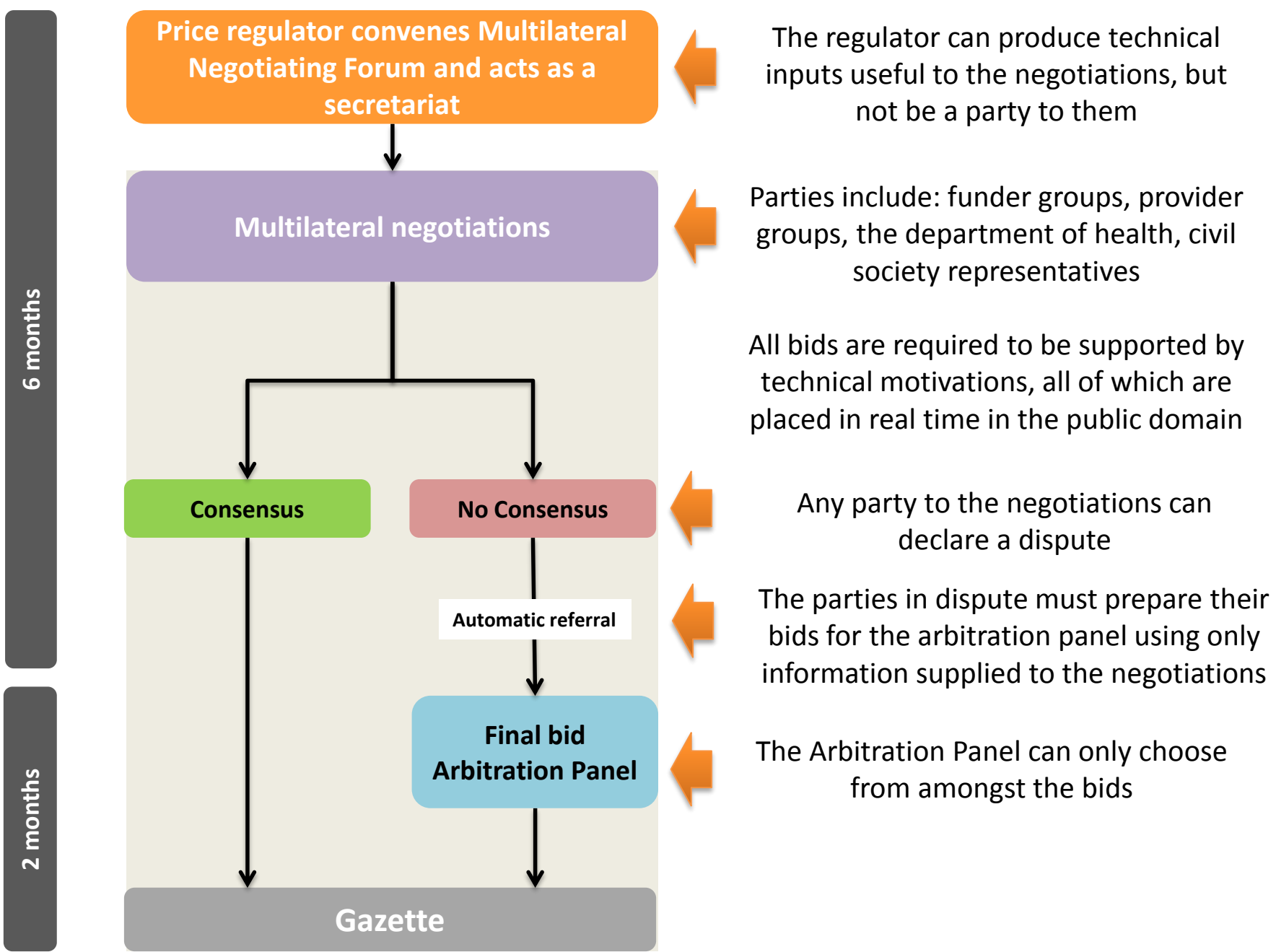
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PROPOSED FRAMEWORK FOR THE CENTRAL DETERMINATION OF FINAL TARIFFS – FOR HOSPITALS AND HEALTH PROFESSIONALS



Central bargaining

- Principles
 - Applies only to open contracts (i.e. those where the conditions of contract do not extend to demand and product quality)
 - Sets final prices for health professionals and all health facilities
 - Prices set through open multilateral negotiations – which include non-market stakeholders (e.g. government, regulators and civil society)
 - Determines price structures, billing rules, price definitions, procedure codes, rand conversions and (all components of DRGs)
 - Requires maximum disclosure of the rationale for price-determination bids (i.e. all information open to the general public)
 - Institutionalised deal-breaking mechanism to address disputes
 - The process must set prices annually



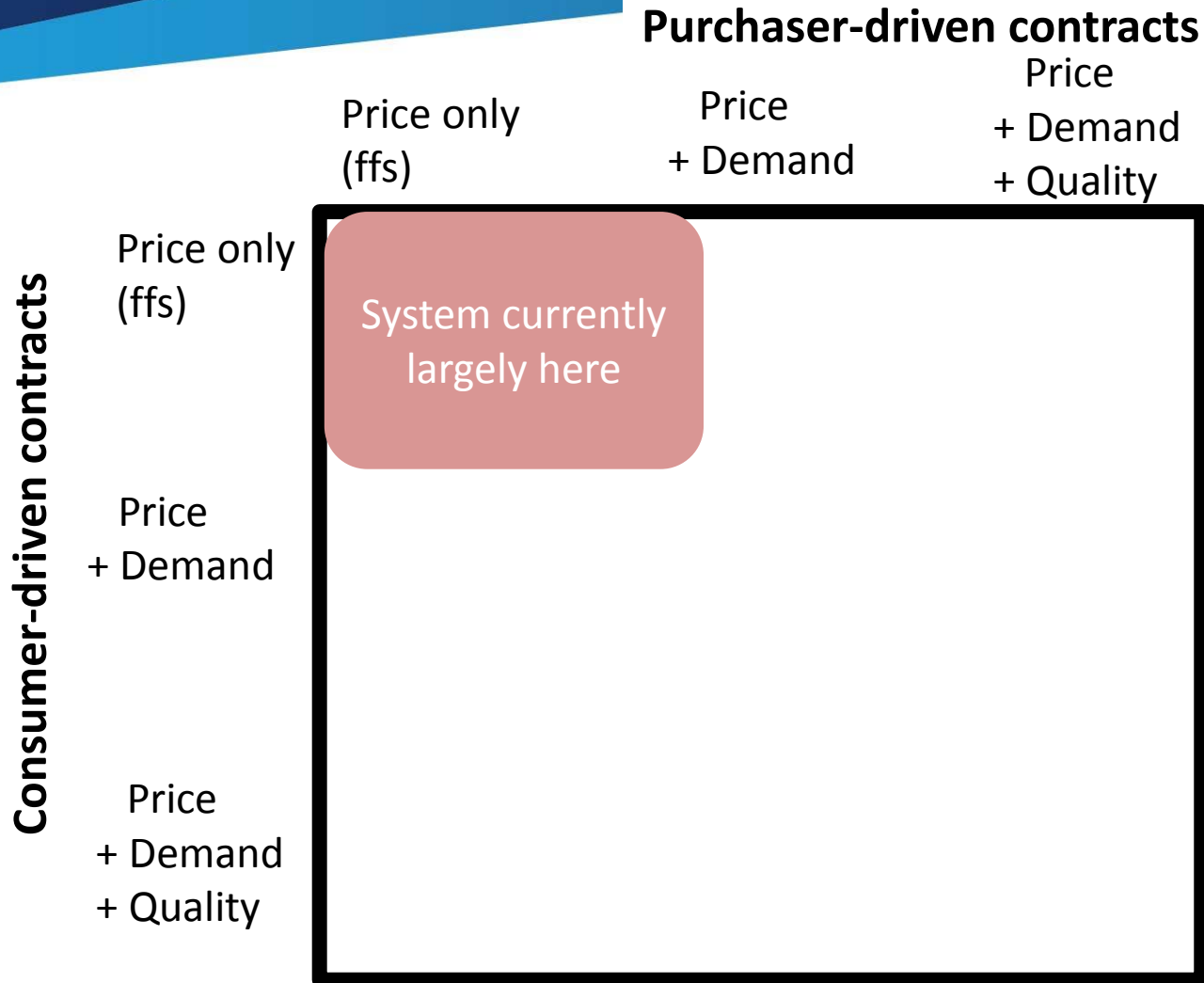


Relationship between the prices determined through multilateral negotiations and other contracts

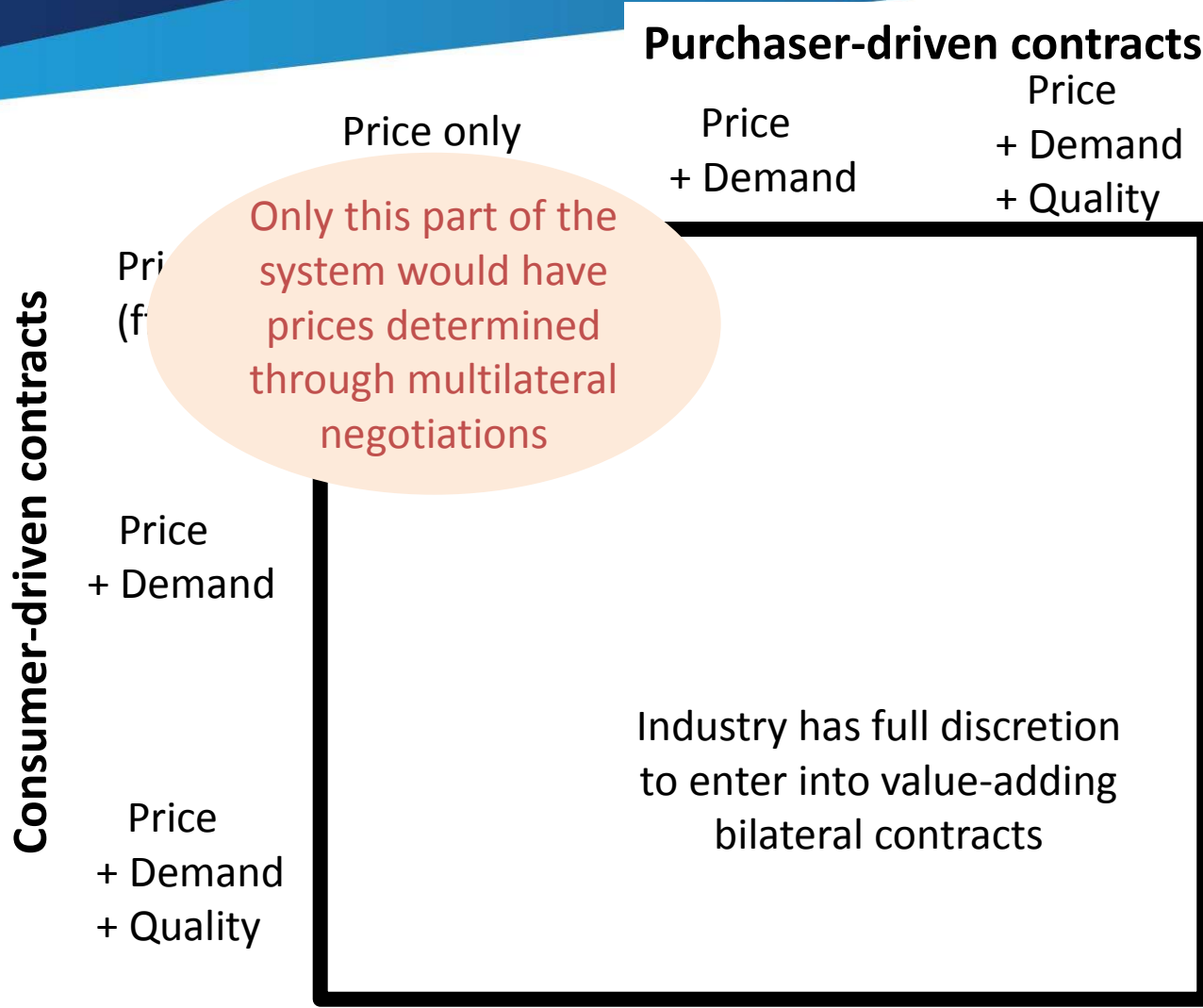
- The prices determined through the multilateral negotiation process would not apply to bilateral contracts (those set between a funder and a provider or group of providers)
- No bilateral contract will be permitted to include prices higher than those determined through the multi-lateral negotiation forum



The array of contracts



The array of contracts





DISCUSSION