

ANNEXURE 5.5 LOYALTY AND WELLNESS PROGRAMMES

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Introduction

1. Loyalty and wellness programmes are distinct programmes offering specific benefits to members. Wellness programmes offer members and/or beneficiaries a direct medical benefit such as free medical screening, HIV programmes and counselling. For some medical schemes the wellness component may form part of the benefit package offered to members. In this instance members do not pay a separate contribution fee to obtain these wellness benefits.
2. Loyalty programmes, on the other hand, reward members for frequent store purchases or provide discounts on purchases at major retailers, movie tickets and car rentals. Wellness programmes may be combined with loyalty programmes whereby the member is rewarded for healthy behaviour. In such instances these programmes are voluntary and members can join the programme by paying the programme's membership fee separately to their medical scheme premium. This separation is necessary because the Medical Schemes Act 131 of 1988 (MSA) precludes medical schemes from incurring any expenditure that is not healthcare related. Section 26(5) provides that the medical scheme may not make any payment in whatever form directly or indirectly to any person as a dividend, rebate or bonus of any kind whatsoever.
3. The HMI is interested in these programmes in so far as they affect competition amongst medical schemes and medical schemes administrators. In particular the HMI is interested in whether medical schemes and their administrators use loyalty and wellness programmes as a strategy to attract younger and healthier members, to increase switching costs or to bypass the regulated broker remuneration. Below we provide a brief description of the relevant loyalty and wellness programmes, and we provide a synopsis of the stakeholders and HMI's findings on the impact of loyalty and wellness programmes on medical schemes and medical schemes administrators.

Relevant wellness and loyalty programmes

4. Discovery Limited introduced Discovery Vitality (Pty) Ltd (Vitality) in 1997. Vitality has described its programme as a behavioural programme as it seeks to influence health outcomes by rewarding members for healthy behaviour. All 17 of Discovery Health

Pty (Ltd) (Discovery Health) administered medical scheme members¹ can access Vitality through paying the monthly contribution fee. Consumers can also join Vitality by purchasing other financial or insurance products sold within the Discovery Group, such as Discovery Life and Discovery Insure products.

5. MMI Holdings Limited introduced MMI Multiply (Pty) Ltd (Multiply), a loyalty and wellness programme in 2004. Members of all 20 medical schemes that the MMI Group Limited (MMI Group) administers² can join Multiply by paying the monthly contribution fee. In addition, policy holders of any of MMI Group insurance products can join Multiply.
6. In addition to these two larger loyalty and wellness programmes, there are other smaller programmes in the market. These include Sanlam Reality the brand name of the lifestyle programme managed by the company Real Futures (Pty) Ltd, which is a wholly owned subsidiary of Sanlam Ltd.³ Medical scheme members from Bonitas Medical Fund, Fedhealth Medical Scheme and Barloworld Medical Scheme can join the Sanlam Reality programme. There is also the Just Rewards managed by AGE Business Management Solutions (Pty) Limited that Bestmed Medical Scheme members can join. The Universal 360° programme a division of Universal Healthcare Services (Pty) Ltd, has the Universal 360° Alpha option that any individual can join. This implies that individuals do not have to be a member of a medical scheme administered by Universal Healthcare Administrator (Pty) Ltd (Universal Healthcare) to gain access to a loyalty and wellness programme.

Stakeholder views on wellness and loyalty programmes

7. Various stakeholders stated that medical schemes use loyalty and wellness programmes to attract young and healthy members.⁴ The HMI heard from a Discovery Health Medical Scheme (DHMS) member that Vitality (in particular the gym contract and movie tickets) was key to her decision to joining DHMS.⁵ Discovery Health states

¹ CMS Annual Report 2016/2017 Annexures. This figure includes the University of the Witwatersrand, Johannesburg Staff Medical Aid Fund. However, this medical scheme has since merged with DHMS.

² MMI Holdings consists of four administrators, MMI Health (Pty) Ltd, Metropolitan Health Corporate (Pty) Ltd, Methealth (Pty) Ltd and Providence Healthcare Risk Managers (Pty) Ltd. All members belonging to medical schemes administered by these administrators can join Multiply.

³ <https://www.sanlamreality.co.za/about-reality/>.

⁴ Medscheme Holdings Competition Commission Market Inquiry into the Private Healthcare Sector Submission, October 2014, pg 66. Fedhealth Medical Scheme First Submission to the Market Inquiry into the Private Healthcare Sector, 31 October 2014, pg 18.

⁵ Transcript, Cape Town, 9 March 2016, Pg 62 and 63.

that the Vitality programme aims to promote a healthy life style. They have found that members who actively engage in the Vitality programme have lower claims costs per patient compared to non-participants.⁶

8. The HMI heard that administrators may use loyalty and wellness programmes to win medical scheme tenders. But various medical scheme trustees and principal officers told the HMI that, when considering which administrator to use, the access to loyalty and wellness programmes was only a minor factor, or not a factor at all in their decision on which administrator to use.
9. Medical schemes, and in particular self-administered medical schemes, argue that even if they see value in these products (and particularly the combination of loyalty and wellness programmes), the MSA precludes them from investing in, and developing these programmes as the expenditure is not related to healthcare.⁷
10. Medscheme Holdings (Pty) Ltd (Medscheme) suggested that the definition of relevant healthcare service should be expanded to include wellness programmes. This would lower the financial and regulatory barriers to entry into the medical schemes market. From a competition perspective this would facilitate transparency amongst wellness providers as they would be required to publish their outcomes in order to remain competitive.⁸
11. Various administrators stated that, in addition to having financial backing, developing and expanding wellness programmes also requires sufficient skill, experience and scale. In addition, in order to be successful at attracting members, these programmes must contract with well-known partners. Furthermore, without these programmes, they cannot incentivise brokers by paying them a commission for selling loyalty and wellness programmes in addition to the regulated broker payments for medical scheme products the MSA prevents it.
12. The remuneration brokers receive for loyalty and wellness programmes falls outside the statutory requirements of the MSA, and, as such, there are no requirements on the commission structure. Medical schemes and administrators with these programmes can use them to indirectly incentivise brokers as brokers will earn their

⁶ Discovery Health Submission to the Competition Commission Market Inquiry into the Private Health Sector, 17 November 2014 pg, 263.

⁷ Bestmed Submission in Accordance with the Guidelines for Participation in the Market Inquiry into Private Healthcare Sector Issued 1 August, Submitted on 31 October 2014, pg 93-94.

⁸ Medscheme Holdings Competition Commission Market Inquiry into the Private Healthcare Sector Submission, October 2014, pg 16.

regulated medical scheme commission as well as commission from selling the wellness/ loyalty product.⁹ This is allowed because the remuneration for the loyalty/ wellness programmes come directly from the programme and not the medical scheme.¹⁰ However, Discovery Health referred to section 3A(1)(a) and (b) of the FAIS General Code of Conduct which governs commission payments and sets out the requirements applicable around the management of conflict of interest, as well as prohibits any product provider from providing special remuneration based on preferential sales in certain circumstances.

13. The CMS has raised concerns regarding the lack of transparency on the payment by medical schemes and administrators to loyalty and wellness programmes. The CMS has investigated a number of cases relating to breach of the MSA regulations. The CMS's first step against an administrators who are in breach, is to issue a directive to desist from continuing with the conduct and to comply. They may also require the administrator to pay back the amounts to the medical scheme.

HMI analysis on wellness and loyalty programmes

14. The HMI has not assessed, and therefore makes no findings on Discovery Health's submissions that Vitality improves the health of their members and, in doing so, brings down healthcare costs.
15. The HMI agrees with stakeholders that large corporations are better placed to raise the required capital to establish these programmes. These large groups will have access to many policy holders from across the group to offer their products to. This is likely to increase their ability to contract with other service providers.
16. The HMI found that indeed the MSA prohibits medical schemes from establishing loyalty and wellness programmes. There may be an alternative for restricted medical schemes as they could consider, for example, the Multiply programme as this programme may be open to some medical schemes from other administrators.¹¹
17. Individuals can also access the Universal 360° programme as it is open to everyone. The HMI has, however, not tested the viability of this. Alternatively, individuals who

⁹ Bestmed Submission in Accordance with the Guidelines for Participation in the Market Inquiry into Private Healthcare Sector Issued 1 August, Submitted on 31 October 2014, pg 93-94. Submission of Profmed Medical Scheme to the Panel of the Inquiry into the Private Health, October 2014 Sector pg 9.

¹⁰ Although the HMI found that these payments may come indirectly from the medical schemes where the wellness/ loyalty programmes receive money from the administrator.

¹¹ The HMI heard that CAMAF and Profmed Medical Scheme members may join Multiply

are members of medical schemes that do not provide access to these loyalty and wellness programmes can still join these programmes through purchasing one or more of the other qualifying products from companies within the group. In a similar manner, medical scheme members with access to these programmes through their medical scheme, may switch to a medical scheme without this access and not lose their rewards if they have another qualifying product from within the group. However, members may get a combined greater value from purchasing all their health and other insurance cover from one group of companies, which allows them to maximise their total benefits/ rewards they receive. It is because of this that the HMI finds loyalty and wellness programmes to increase perceived switching costs.

18. The HMI is of the view that medical schemes decision on which administrator to select is influenced by the entire administration offering, such as, the administration fees and the administrator's ability to manage healthcare costs through contracting effectively with providers, amongst other things. The HMI found that 10 out of 27 medical schemes that switched administrators for the period 2010-2016, switched to administrators that offer a loyalty and wellness programme. We found no evidence to suggest that these medical schemes switched merely to gain access to loyalty and wellness programmes, but we also cannot rule out that it was one of the factors they considered.
19. In order to assess the claim that medical schemes and administrators use wellness programmes to attract younger, healthier members, the HMI assessed the average age for medical schemes with and without access to wellness programmes to determine if either has changed significantly over the period. The HMI found that, overall, open medical schemes with a loyalty and wellness programme have experienced an increase in membership growth, but not necessarily a better age profile. However, experiences of individual loyalty and wellness programmes may differ and some may be more successful at attracting younger, healthier members than others. The HMI found in its analysis of the claims data that, over the five year period, at an administrator level, that Discovery Health showed lower increases in average age than Medscheme, Metropolitan Health Corporate (Pty) Ltd (Metropolitan Health), self- administered and other administrators.¹² There are several reasons that could explain this, but access to Vitality may be one such reason.

¹² Report on Analysis of Medical Schemes Claims Data: A Focus on Funders Table 42. The table looks at the age of all the medical schemes under administration and not only the open medical schemes. Restricted medical schemes age will change if the employers higher younger staff members.

20. The HMI also reviewed selected loyalty and wellness programme contracts¹³ between Vitality, Multiply and Sanlam and their respective service providers. Many of the contracts had exclusivity sections. However, the HMI is of the view that none of these contracts raise competition concerns.

Transparency on funding of loyalty and wellness programmes and broker commission

21. As already explained above, the MSA regulations prohibit payments to loyalty/wellness programmes. Discovery Health indicated that it invests substantial resources in a wide range of innovations each year, one of which is Vitality.¹⁴ MMI Health (Pty) Ltd (MMI Health) does not pay any fees, as such, to Multiply, but there are internal allocations done within the MMI Group, whereby Multiply's costs are allocated to the various business units, including the administrator.¹⁵

22. The lack of transparency on the funding of these loyalty and wellness programmes, for the medical scheme trustees and members in this regard is a concern for the HMI. Some of these programmes may not be sustainable with only the revenue they receive from their members. Administrators and other companies within the corporate groups subsidise these programmes. Where administrators do so, indirectly medical scheme members (through the administration fee), regardless of belonging to the programme or not, contribute financially to the programme. Furthermore, given that these programmes pay brokers commission, the money administrators pay to these programmes may be a way to circumvent regulations surrounding broker payments.

Conclusion on wellness and loyalty programmes

23. The HMI concludes that overall, open medical schemes with a loyalty and wellness programmes have experienced an increase in membership growth, but not necessarily a better age profile. However, experiences of individual programmes differ and some may be more successful at attracting younger, healthier members than others.

24. Administrators and other companies from within the group pay additional funds in various forms to loyalty and wellness programmes. The lack of transparency

¹³ The contracts selected were based on the well-known service providers and the service providers that were common across the stakeholders.

¹⁴ Letter submitted by Discovery Health titled "*HMI broker questions*" dated 17th April 2018.

¹⁵ Email submission by MMI Health dated 23 April 2018.

surrounding the funding of these programmes, may allow medical schemes and their administrators to circumvent regulations through increasing the commission brokers receive. These programmes may be used to provide the medical schemes or administrators' with an unfair competitive advantage in the market. There is a need for transparency on the reporting of the funding of these programmes.