



# Workshop 2: Funders' market concentration and countervailing power

10<sup>TH</sup> APRIL 2019

# Agenda



- Competition in the funders' market
- Effective managed care and fraud management
- Competitive tariff negotiation
- Initiatives to expand access and promote competition
- Response to University of Fort Hare's proposal
- Summary

# Competition in the funders' market



- Administrators face strong incentives to actively manage cost and quality of healthcare services – this improves their competitiveness in the market for administration of restricted schemes; and improves performance of open scheme clients, leading to growth in membership
- The social solidarity framework facilitates movement between schemes; high churn rates are evidence of competitive market – in 2018, DHMS had 370k new entrants and 334k exits
- Administrator interests are aligned with schemes
  - DH experience – trustees of all 19 client schemes take fiduciary duties very seriously
  - Appointment of experts is a principle of exercising fiduciary duty
  - DH does not make strategic decisions on behalf of schemes; provides advice for decisions by Trustees
  - DH has clear contractual and reporting requirements with client schemes – including detailed SLAs
  - Alignment between for-profit administrator and not-for profit scheme enables the market to operate competitively, while ensuring all savings are transferred directly to schemes and their members
  - DH provides detailed reporting on value of all services, including managed care savings – externally audited
  - Open schemes have more marketing, underwriting and fraud management requirements, hence higher NHE
  - HMI has presented no concrete evidence of governance failures in schemes

# Competition in the funders' market

VALUE TO MEMBERS IN TERMS OF LOWER TOTAL COST OF COVER

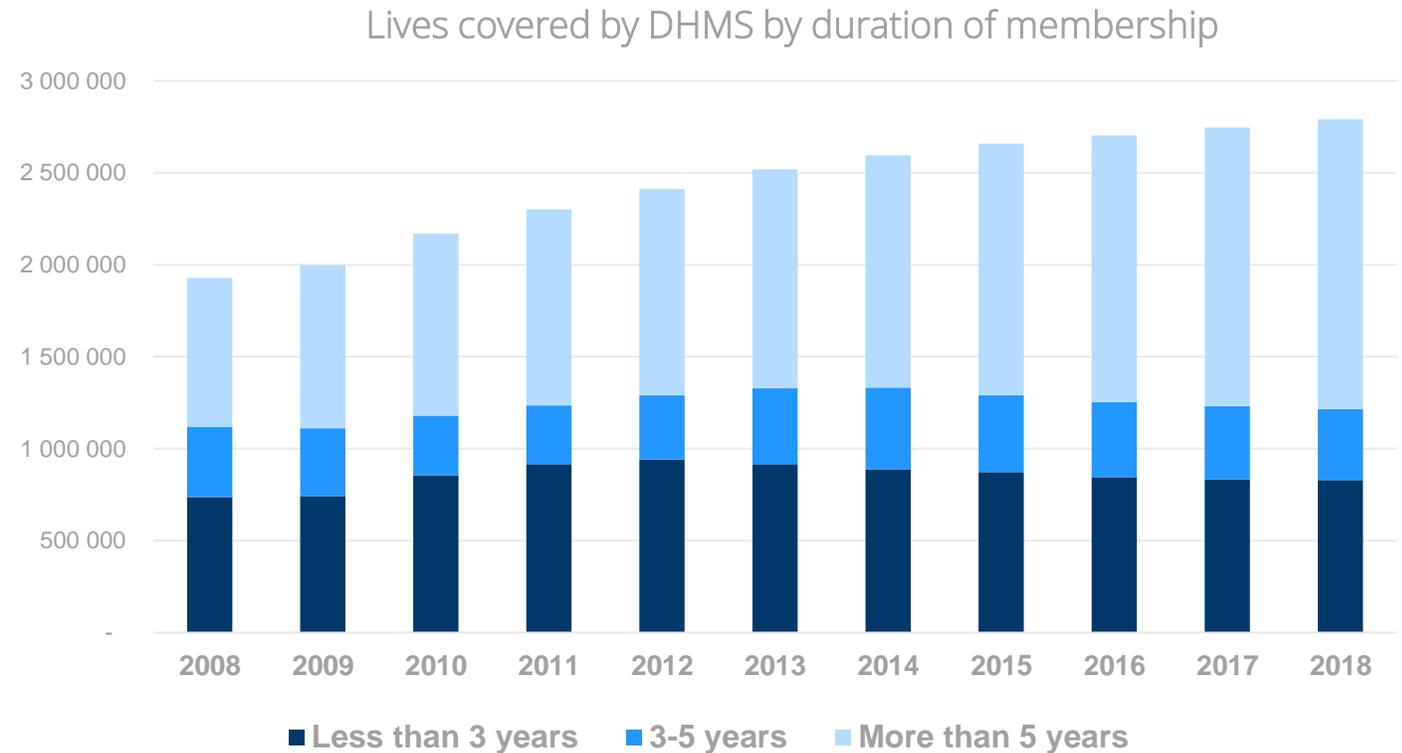


- Incorrect to assume a direct relationship between size of the administrator and administration fees charged
  - This assumption assumes uniformity in the quality and scope of services provided by each administrator
  - Assumes linear returns to scale
- There are some benefits of scale in the administrator market:
  - Enhances efficiency of administrator functions
  - Allows for more sophisticated managed care and fraud management interventions
  - Countervailing power to large hospital groups for more competitive tariffs
- Competition in the open scheme market on cost and benefit richness – brokers are very active in making comparisons
  - PMB requirements are key challenge in managing supply induced demand – CPI is basis for provider tariff adjustments
- Proliferation of benefit plans is due to varying consumer health and financial needs, the need for network plans and ARMS to manage cost and quality, and regulatory complexity
  - Challenging for consumers to assess need before health event occurs

# Competition in the funders' market



- DHMS growth virtually all organic. Less than 1.0% due to scheme mergers
- DH has won 16 out of 17 closed scheme tenders in the past 10 years
- Organic growth of DH driven by
  - DHMS outperformance on all performance metrics
  - Sophisticated and effective direct and broker lead marketing and distribution of DHMS
  - Well recognised superior service offering for all scheme clients
  - Demonstrated ability to reduce claims costs and improve services for restricted schemes while charging similar or lower administration fees
- Membership churn is evidence of a competitive open scheme market

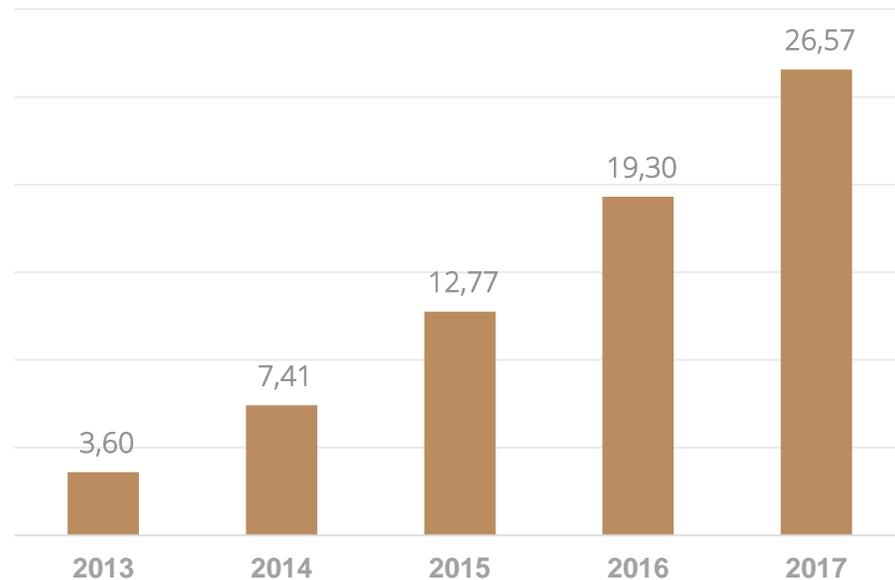


On average only half of DHMS members have been on the scheme for more than 5 years

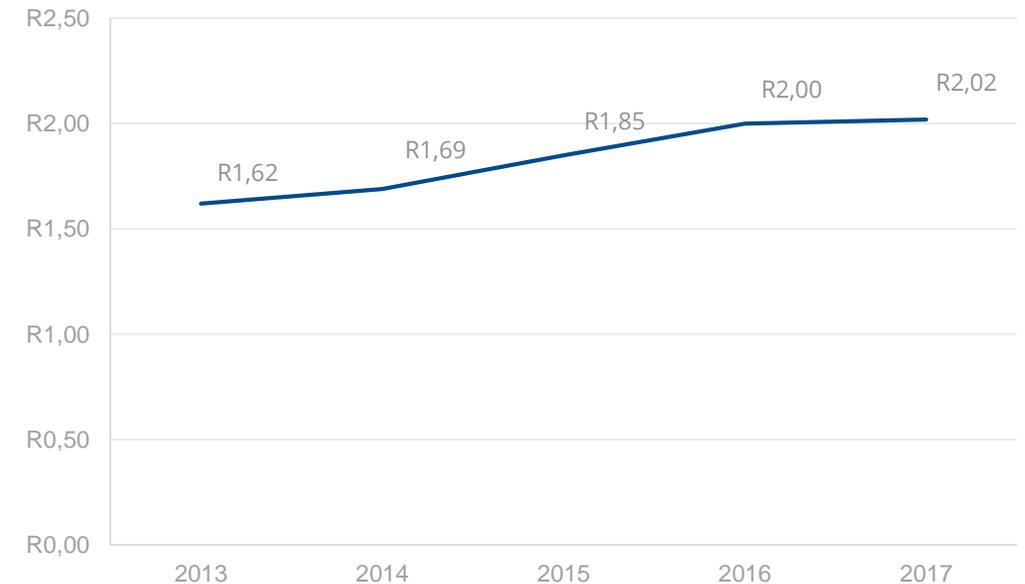
# Effective Managed Care and Fraud Management



DHMS cumulative savings for managed care and wellness initiatives **R26.57bn** (2013-2017)



DHMS's ROI for each Rand spent on managed care



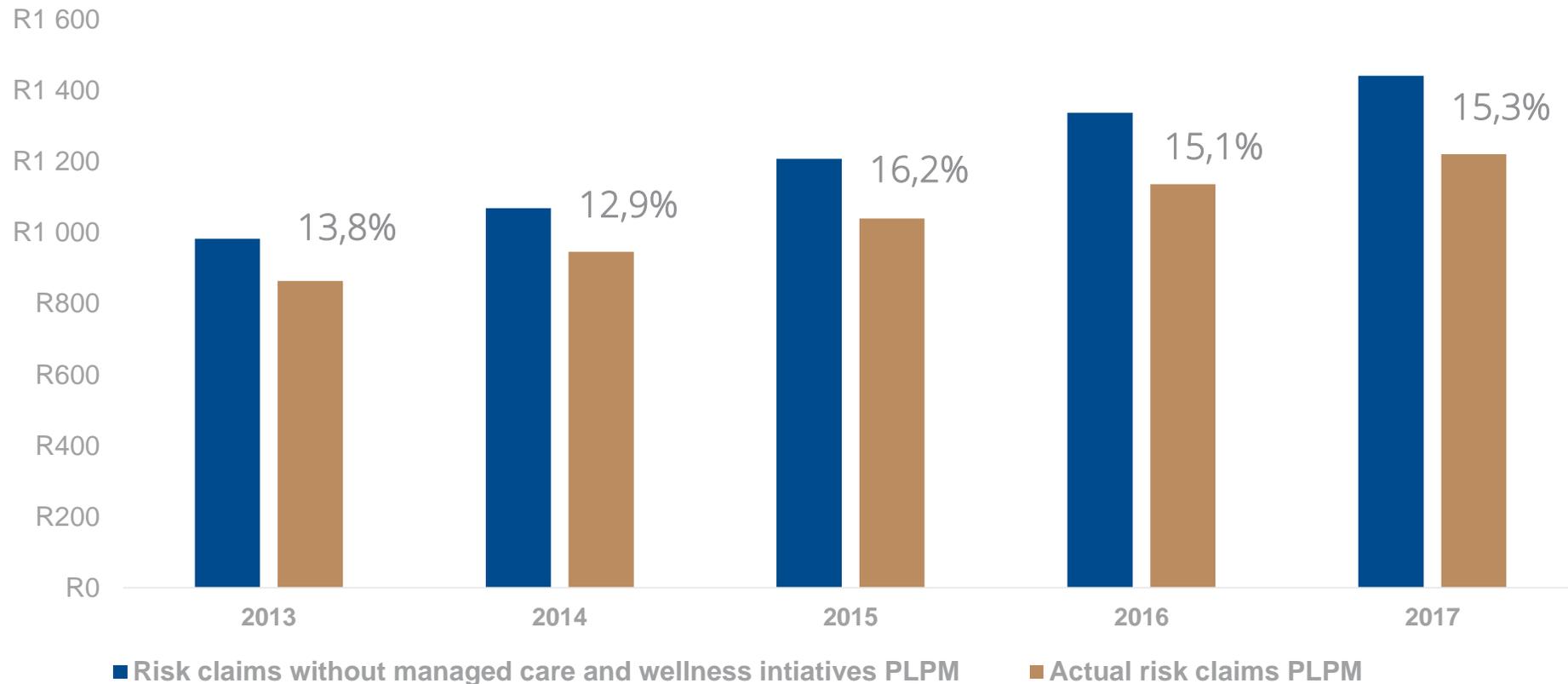
DHMS members benefit directly via lower contribution increases and richer benefits

# Effective Managed Care and Fraud Management



- Members benefit from lower contributions (confirmed by independent audit by Deloitte)

Risk claims with and without managed care PLPM



# Effective Managed Care and Fraud Management



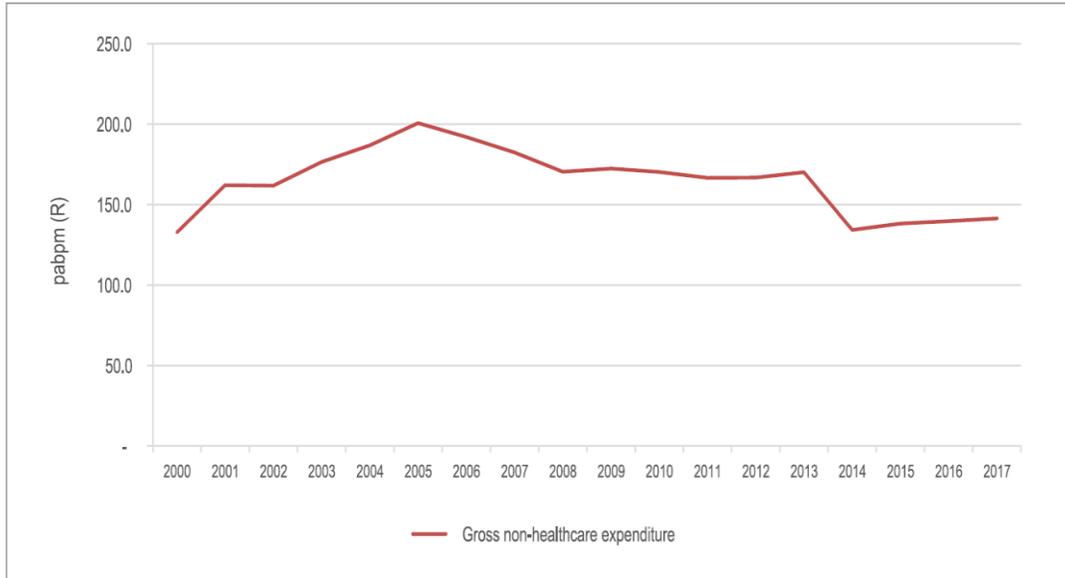
- Managed care has
  - Improved efficiencies through improved pricing, lower costs and reduced waste
  - Enhanced quality of care and health outcomes
  - Fostered competition between schemes in the market
- DH fees are very competitive, with increases at or below CPI, and strongly positive ROI of over 300%
- DH supports:
  - Transparent contracts with regular reporting to client schemes on ROI of initiatives
  - Trustees should continually scrutinize contracts to assess value for money on managed care expenditure
  - Improved transparency in managed care outcomes to heighten competition in the managed care market while preserving confidential information.
  - Critical that appropriate and comparable metrics, developed in consultation with scheme and administrators, are used to compare managed care performance

# Real reduction in non-healthcare costs



## Gross NHE 2017 prices

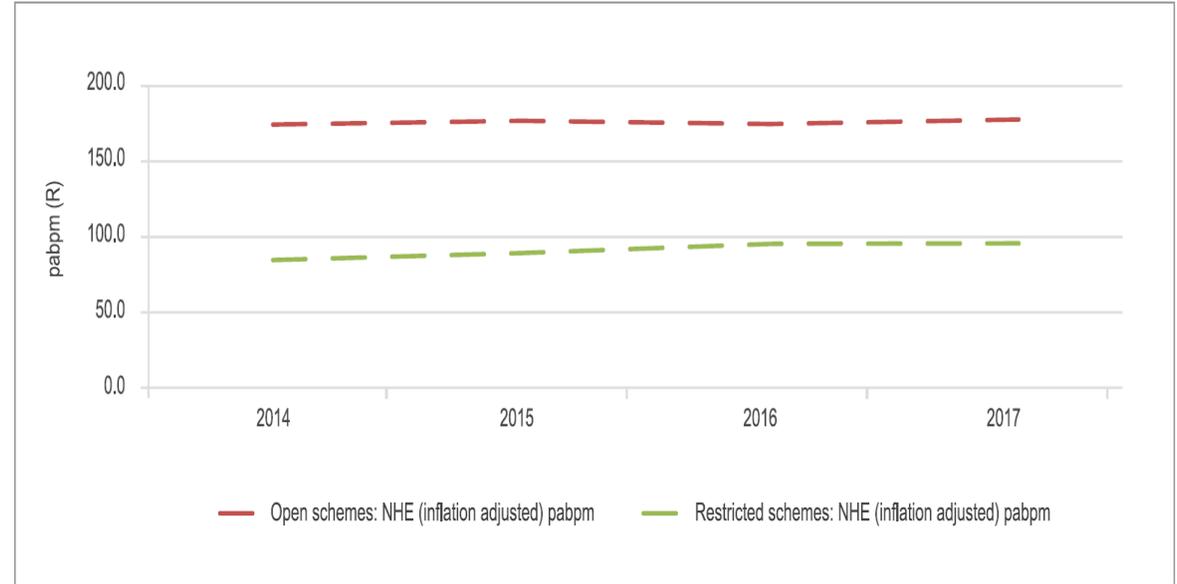
Figure 55: Gross non-healthcare expenditure: 2017 prices



pabpm = per average beneficiary per month

## Open vs. Restricted schemes

Figure 56: Non-healthcare expenditure in open and restricted schemes for 2014-2017 (2017 prices)



2005 NHE per average beneficiary per month reported by CMS escalated at CPI to 2017 vs. actual in 2017 = 15% reduction (R1.8bn lower per annum)

DH submission to CMS on Circular 6 of 2019

# Competitive tariff negotiations for the benefit of members



- Organized and collective negotiation process requires strong countervailing power
- Process requires properly defined coding mechanisms
  - Updating and maintenance needs to be distinct from tariff setting
  - Inclusive process for definition and maintenance
- DH supports the following pricing principles:
  - Introducing maximum tariffs for PMBs in absence of bilateral agreements
  - Standardised coding systems to facilitate monitoring, analysis and publication of expenditure trends and health outcomes
  - Promoting innovative models of healthcare funding and delivery
  - Promoting competition among service providers

# Competitive Tariff Negotiation for the Benefit of Members



- Critical to move away from FFS mode of contracting (capping PMB tariffs)
- The abolishment of HPCSA employment rules will allow for
  - Innovative contracting models such as global fees enabling risk sharing
  - Improved care co-ordination via multidisciplinary teams in hospital and in primary care settings
  - Improved efficiencies to achieve quality outcomes
- Corporate providers: Bilateral negotiation process. Collective bargaining will undermine competition and favour providers, thus harming schemes and members
- Private practitioners:
  - Multilateral process for setting PMB max tariffs in absence of bilateral agreements
  - Innovative contracting promoted (bilateral)
  - Binding non political, independent arbitration or other deadlock breaking mechanism
- Direct benefits to members - lower prices, improved quality and better care

# Initiatives to expand access and promote competition



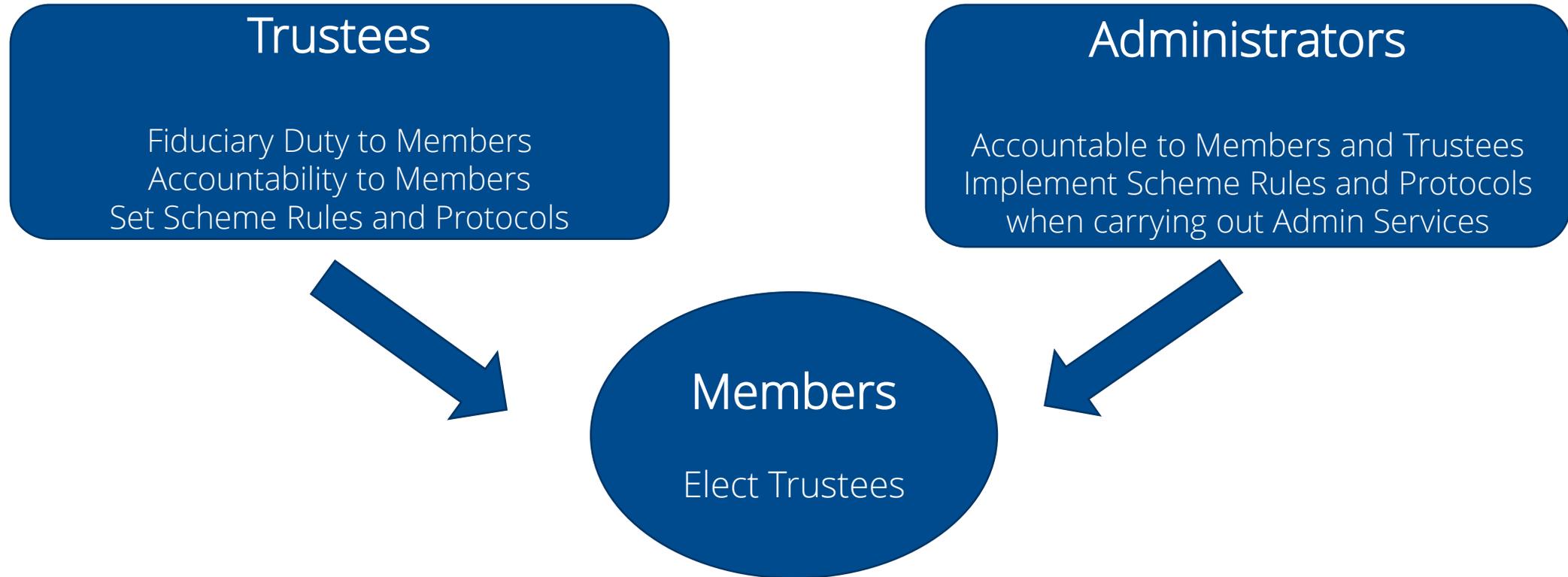
- Standardised base benefit package
  - Needs to be at appropriate level to promote affordability
  - Consider 2-3 packages, broadly linked to income levels (noting verification challenges)
  - Must be accompanied by mandatory membership requirement and Risk Adjustment Mechanism
- Risk Adjustment Mechanism (RAM)
  - Requirement for social solidarity framework
  - Distributes rather than mitigates anti-selective effect
  - Rigorous technical analysis to identify genuine cost drivers
- DH supports risk-rated supplementary cover
- Contribution discounts under 35
  - Can erode cross subsidies without any guarantee of being effective
- Mandatory membership is the best mechanism to enhance cross-subsidies

# Initiatives to expand access and promote competition



- Role of brokers recognized
  - Support opt out provision
  - Employer plays important role in promoting access to cover – obligation to inform rather than individual consent
  
- Reaching low cost market
  - Contribution subsidies for low income members
  - Implementation of low cost benefit options
  
- Urgent need to review PMBs
  - Ensure cost of cover does not increase
  - Adjust package to accommodate primary care - avoid cost escalation by removing elements of high cost care
  - Provide clear definitions and coding guidelines

# Response to University of Fort Hare: Alignment of Schemes and Administrators to Protect the Collective Best Interests of Members



Trustees set rules to ensure the **collective** best interests of members are protected

Administrators must abide by rules to ensure **fairness** and **objectivity**

Administrators have **no authority** to change the Scheme rules (56I(a))

The **fiduciary duty** of Trustees is passed onto administrators by contract

# Response to University of Fort Hare



- Regulatory regime requires schemes to operate on a not-for-profit basis
- Alignment with for-profit administrator ensures the market is competitive and efficient
- DH supports the role of independent trustees and the need for trustees to exercise independence
- UFH has misunderstood the role of medical scheme administrators in the comparison to pension funds:
  - Comparable to pension fund administrator role
  - Not comparable to reinsurance role
  - The rules determine which claims / benefits are payable
  - The administration contract sets out service levels (monitored by Trustees)
- Measures to legally empower members to pressure administrators based on misunderstanding of legislation and governance arrangements.
  - Governance structure based on Trustees having responsibility for scheme and member interests
  - Members have recourse to Trustees who must deal with the administrator
  - Adding fiduciary obligations to administrators will not make substantive difference to current situation

# Topic 1: Countervailing role of Funders



- Strong funders are critical for procurement of healthcare services and for countervailing power to large provider groups
- Growth in funders is driven by consumer choices (assisted by brokers, market comparison tools)
- Market interference will affect risk pools – capping size of scheme or options will create a death spiral
- Member churn is strong evidence of a competitive open scheme market – members are disciplining funders by switching. For DHMS over 600 000 lives per annum (23%) move in and out and another 150 000 change benefit options.

Year	Joiners	Leavers	All movers
2015	313,291	327,057	640,348
2016	317,882	317,664	635,546
2017	321,268	324,588	645,856
2018	328,434	323,507	651,941

- Members only engage with nature and range benefits when claiming – at point of purchase **price** is key factor.
- Proliferation of options arises from need to compete on price – evidenced by growth in network option membership
- Risk selection is not the key driver of option proliferation
- HMI has not presented evidence of tactical risk selection – more options actually worsens risk selection over time, especially in community rated risk pools

# Topic 2: Aligning Incentives



- For profit administrators earn fixed administration and managed care fees per policy
- Profits are increased by membership volume, and are decreased by benefits complexity which drives service intensity



- DH business model is aligned with interests of its client schemes – achieved by delivering sustainable value to members
- We do not object to Fort Hare recommendations – but they will not solve the problem of poor governance of schemes
- DH experience: Trustees play a strong and effective governance role. This is possible in current regulatory environment
- Need to balance election of Trustees with addressing skills requirement – Non-executive director guidelines helpful

# Topic 3: Unequal distribution of market shares



- Interventions to reduce funder concentration would harm bargaining power of schemes, and would therefore materially harm consumers while benefiting providers
- DH has demonstrated that lower tariffs through bargaining power and value based contracting are passed on to members
- Administration and managed care fees account for only 10% of total contributions –
  - Key issue is managing **total** cost of cover
  - Effective procurement and risk management reduce cost inflation
- Regional schemes
  - DH supports the concept in broad terms
  - Needs more detail
  - Level playing field - both new entrants and incumbent schemes must be allowed to provide regional options
  - Need to balance effects on gainers and losers – impacts on cross subsidies
- Administrators negotiating on behalf of restricted schemes greatly benefits members.

# Topic 4: Networks and DSPs



- Selective contracting required for Alternative Reimbursement Mechanisms (ARMs) to deliver value effectively.
- Distinguish between corporate and individual practitioners when considering tenders for DSPs – tenders impossible in the context of >20,000 individual health professionals
- Mandatory terms for DSP contracts will reduce innovation and competition, and will impede value delivered to members.
- Urgently need removal of regulatory barriers to ARMs and network design, including removal of HPCSA rules
- Benefit differentiation, in almost any market, is a key aspect of competition. More, not less, benefit differentiation increases competition rather than reducing it.

# Concluding observations



- Administrator market is competitive and efficient
- Managed care initiatives generate significant savings for schemes
- Supportive of industry initiatives to improve governance transparency of managed care contracting including outcomes reporting
- Requires industry consensus on appropriate metrics and methodologies for measurement and reporting
- DH supports 2-3 standardised base packages linked to affordability, with Risk Adjustment Mechanism
  - Needs to be carefully designed and appropriately structured (networks)
  - Must allow for mechanisms to manage demand and supply side utilisation
- Support risk-rated supplementary cover
- Need to promote competitive tariff negotiation and innovative contracting models
- Support bilateral negotiations for corporate providers, and multi-lateral contracting for maximum tariffs for PMBs
- Remove regulatory impediments to ARMs
- Funders are aligned in protecting interests of members
  - Support governance measures to enhance fiduciary principles
  - Trustees role needs to be clear and undiluted