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Health Market Inquiry
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Comments on the Health Market Inquiry Provisional Report (Provisional Report)

Introduction

The Tiger Brands Medical Scheme (the Scheme), which is a restricted scheme, covering a total of 14079 lives, welcomes the opportunity to comment on the recommendations contained in the Provisional Report.

General

The Scheme is supportive of the Inquiry's recommendations to improve competition in the private healthcare sector by prioritizing transparency, accountability, curbing supply induced demand and promoting value driven healthcare.

A Regulated Tariff Determination Process and the Establishment of the Supply Side Regulator for Healthcare

It is the Scheme's view that the root cause of the private healthcare sector's adverse effects on competition is the absence of a regulated tariff determination process, which has resulted in the supply side of the market being able to drive much of the healthcare expenditure in the sector and almost unilaterally being able to determine pricing, as a result of supplier market power and dominance. This imbalance in supply and demand has led to medical schemes being "price takers".

The Scheme accordingly welcomes the recommendation that a Supply Side Regulator for Healthcare (SSRH) be established. The Scheme does not, however, agree with the proposed timeline of five years from the date of publication of the final Inquiry Report for the introduction of this body. The current unregulated pricing environment has led to high and rising costs of medical care. In the absence of the introduction of the SSRH, these costs will just continue to rise. The proposed establishment of the SSRH is an important intervention not only for competition purposes, but is in the public interest at large and it is imperative that it be established as a matter of urgency. Effective and efficient regulatory oversight of the supply side of the healthcare market is essential to curb the ills of the market and is necessary to improve affordability of private healthcare goods and services and to ensure greater access to quality healthcare services. In the absence of an appropriate tariff setting mechanism, it is submitted that there is little that schemes can do to address the supply induced demand and to contain healthcare expenditure.

Of the two tariff setting mechanisms proposed by the Inquiry, the Scheme prefers the regulated option of tariffs being set by the SSRH after input from a multilateral forum. The alternate multilateral price setting mechanism where stakeholders conduct tariff negotiations under a framework and with conditions determined by the SSRH, it is submitted, may be open to abuse as a result of the market dominance of the service providers and facilities. The Scheme welcomes the fact that tariffs for PMBs will be binding and that the tariffs for non-PMBs will have the status of reference tariffs, which may only be exceeded if the patient's informed consent has been obtained, or as a result of negotiations between service providers and funders.

In the event that there is no agreement on a tariff, the proposal is that the decision of an arbitrator will be final and binding on the parties. It is not clear who such an arbitrator will be and which guidelines he will be required to follow in the determination of a dispute as to a tariff. More detail is required in this regard.

The Establishment of an Outcomes Measurement Reporting System

The Scheme is also supportive of the Inquiry's recommendation that standards be developed to measure cost effectiveness in the private healthcare sector. This would promote value-based pricing decision-making and allow members to choose a medical scheme on the basis of value, rather than on simply affordability.

It is noted in this regard that it is recommended that providers and funders should take responsibility for financing the first phase (3 – 4 years from date of publication of the Inquiry's Final Report) of voluntary participation in the establishment of an outcomes measurement reporting system. It is further proposed that in the second phase (6 years from date of publication of the Inquiry's Final Report) an appropriate statutory entity, the Outcomes Measurement and Reporting Organization (OMRO), be established to oversee the outcomes measurement and reporting process. It is suggested that Government should find a sustainable funding mechanism, but that levies from schemes would be the primary source of funding complemented by Government and voluntary funding.

The establishment of three new statutory bodies will obviously have cost implications for schemes. These bodies are the SSRH, the OMRO and the ARM, which is the body that will eventually administer the risk adjustment mechanism and the contributions subsidy, which is proposed to replace the current tax credit regime. Coupled with this, the Inquiry's proposals above, as to the first and second phase funding of an outcomes measurement reporting system, raises issues of affordability, which is of concern to the Scheme. The exact mechanics and extent of the funding that would be required is unclear and needs further elaboration before it can be endorsed.

The Process of Appointment of DSP Partners

Whilst in principle it is correct and desirable that DSP partners should only be appointed after an open tender process and the results of the process should be lodged with the SSRH and published, the practicality of this requirement is questioned, especially insofar as it affects restricted schemes. It will be a very time consuming and cumbersome process, which it is submitted may not be feasible.

Funders

Bearing in mind that the private healthcare industry, by its very nature, is a complex environment, the Scheme supports the Inquiry's proposals that transparency and governance in medical schemes must be improved. It should be noted, however, that governance standards in restricted schemes are generally high due to the use of various governance tools, including Codes of Conduct, Annual Assessments of Trustees and the Principal Officer and a Remuneration Policy amongst others.

The Inquiry's proposed objectives of introducing an obligatory base benefit package, which would include an extended range of PMBs, across all schemes, together with a legislated system of risk adjustment is laudable, but will not be easy to implement, as is evidenced by efforts in the past to introduce a risk equalisation fund. It is noteworthy, in this regard that the Inquiry has not decided on the most appropriate risk mechanism to use. More detail is accordingly required in this regard.

An essential pre-condition to the introduction of a base benefit package by schemes will be the prior establishment of an appropriate tariff setting mechanism. In the absence of such a mechanism schemes will be crippled by the costs entailed, as is currently the situation with PMBs. It is therefore imperative that the SSRH be established as a matter of urgency.

The proposals that the CMS develop standards and requirements for all options for supplementary cover and that it annually publish administrators' comparative performance is also welcome, but will take a certain amount of dedication on the part of the CMS to implement.

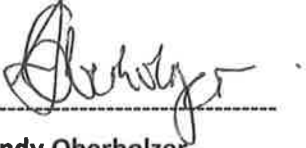
In relation to the Inquiry's proposal that a set of core competencies for trustees must be developed taking into account the diversity of expertise required, it is submitted that this may not be practical in a restricted scheme where the trustees are elected from the existing pool of members of the scheme.

As regards the proposal that an incentive be put in place to encourage younger members to join schemes, possibly by way of a regulated discount on medical scheme premiums, more information is required as to whether the current late joiner penalty will be retained and as to how the discount is to be funded.

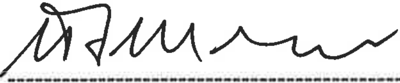
Conclusion

This has been one of the most comprehensive reviews of the private healthcare industry to date and the recommendations are well founded and to be welcomed. The adoption of the suggested recommendations will greatly improve competition in the sector and lead to reduced costs, provided that there is a will to implement the recommendations properly and timeously.

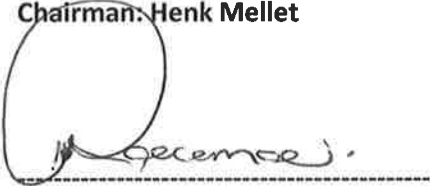
Signed:



Trustee: Sandy Oberholzer



Chairman: Henk Mellet



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