

DR JEFFREY KING
M B B Ch (WITS) FCP (SA) PHF
SPECIALIST PHYSICIAN – CARDIOLOGIST

SUNNINGHILL HOSPITAL, SUITE 32 EAST WING
COR NANYUKI & WITKOPPEN ROADS
SUNNINGHILL PARK 2157
☒ 650968 BENMORE 2010

ROOMS: 0861DRKING / 0861 375 464
EMERGENCY: 082 498 1488
RESIDENCE: (011) 783 1925
FAX: 0861 106 600

CCI/JK2

5 February 2016

Adv Clint Oellermann
Competition Commission Health Inquiry
email: clinto@healthinquiry.net
email: sipho@healthinquiry.net

Dear Adv Oellermann

RE: Presentation to the Competition Commission Inquiry into Private Healthcare

INTRODUCTION :

The absence of commercial risk or accountability from the funding side of the industry sets the South African private health system apart from any other private system in the world, where formalised access (cover) to care exists on a large scale. The highly uneven playing field that it provides in favour of business over the consumer and the extent to which business has taken advantage of it must rank the South African private health system among the most pronounced, if not the biggest, above board scams in the world.

No Excuses - Collapse of the South African Private Health System - Stanley L. Eiser, March 25, 2010

Imbalance

The success achieved by the major hospital groups in expanding internationally off a relatively very small private medical scheme consumer customer base shows there is something fundamentally wrong with the commercial structure of the system.

The absence of commercial risk from the funding side of the industry **disconnects** the industry at institutional level from the medical schemes consumer market. The high profitability of the three major hospital chains and growth therein, while the consumer market they largely rely on struggles with ever increasing copayments and premiums and in making ends meet, is clear evidence of this.

The three major administrators or their parent companies have also expanded off this relatively very small customer base. In Discovery's case, which is extreme, its entire expansion program locally and internationally has been almost exclusively funded by the profit it extracts from the Discovery Health Medical Scheme (DHMS), on which it is dependent. The pressure DHMS is under to deliver a circa 40% profit margin for Discovery on the fees Discovery charges the Scheme, at an annual average growth rate in profit at that margin for Discovery is immense. Meeting these demands has led to internal (inter-option) instability in the Scheme and erosion of benefits.

DHMS has No Competition

The imbalance also exists within the administration segment itself, which Discovery has taken maximum advantage of.

In his presentation to investors on Discovery Limited's results for the year ended June 30, 2014 the CEO of Discovery Limited, in talking about the growth and financial success of Discovery Health Medical Scheme (DHMS), said ".....Someone pointed out to me the simple fact that the mind share of Discovery Health is remarkable. If you ask people who is second they generally don't know – you get different answers – it really commands a huge amount of the mind share."

The Discovery CEO is right about DHMS' and Discovery Health's command of the mind share. There is no second, because DHMS has no competition. Unlike the other two major administrators, MMI and Medscheme, which grew by taking on as many schemes as possible, including some open schemes in competition with one another, Discovery made a business out of one scheme, on which it is largely dependent for cash. No other scheme in the country was developed with anywhere near the commercial energy and charge as DHMS has and no other Scheme in the country has anywhere near the dependency on it by a publicly traded company (JSE:DSY).

DR JEFFREY KING
M B B Ch (WITS) FCP (SA) PHF
SPECIALIST PHYSICIAN – CARDIOLOGIST

SUNNINGHILL HOSPITAL, SUITE 32 EAST WING
COR NANYUKI & WITKOPPEN ROADS
SUNNINGHILL PARK 2157
☒ 650968 BENMORE 2010

ROOMS: 0861DRKING / 0861 375 464
EMERGENCY: 082 498 1488
RESIDENCE: (011) 783 1925
FAX: 0861 106 600

Although Discovery Health is increasingly picking up closed scheme business, DHMS accounted for approximately 90% of Discovery's administration and managed care revenue for the year ended June 30, 2015.

Discovery has used the commercial structure of the industry and the regulatory framework to actively engage in frontline commercial health insurance through DHMS, without taking insurance risk. The risk is being taken by the members of the Scheme, its legal owners, protecting Discovery and, up to now delivering on Discovery's margin and growth demands. The two other major administrators use the structure and regulatory framework passively. They make administration their frontline business.

Solvency and Benefit /Quality Trade Off

Scheme solvency is no source of comfort when benefits are given up to bolster solvency. Benefit levels and degradation therein is not measured as scheme financial solvency is, but is increasingly felt in the pockets of medical scheme consumers, as copayments continue to increase as the system slips further into benefit bankruptcy.

Quality of care suffers as part of benefit degradation and, as with benefits, deterioration in quality of care is not measured.

Doctors Mistakenly Targeted

The cost spiral in private health is mainly caused by weak management of scheme funds by administrators who carry no meaningful risk, if any at all, for the cost, quality and accessibility to care for scheme beneficiaries. Yet they effectively control the funding side of the industry and are heavily relied on by trustees of medical schemes.

The treating doctor – GPs and clinical specialists - is targeted as a main cost driver. Yet, they only make up collectively 17% of total medical scheme expenditure, comprising 7% general practitioners and 9% all specialists excluding the 11% incurred by pathologists and radiologists respectively.

Unregulated and Without Risk

Although subject to accreditation requirements, administrators are unregulated in their conduct in dealing with doctors and other medical providers, yet have major influence over where and how medical scheme money is used.

Trustees of medical schemes largely act with impunity as they delve deeper into influencing patient care through the unregulated approach and actions of administrators and managed care firms mentioned above they hire.

Highly Complex Industry

Being for the most part part-timers involved in other areas of business trustees do not know enough to question administrators at the level needed nor to set specific measurement criteria along the components of the healthcare equilibrium (cost, quality, range of service, and level of service) in outsourcing services to administrators and managed care providers. Nor do they know when to engage external advisory services to assist in dealing with core service providers, to the extent there are truly independent advisors. The community is very small and just about everyone with expertise is in some way connected and conflicted.

Medical Schemes are Businesses

Although set up and managed as trusts, medical schemes are businesses in a highly charged commercial environment. It is impossible to engage with the industry on this basis without losing. Medical schemes need to function as businesses and the first step in doing so is through **performance based fees for business service providers** (administrators and managed care firms). Although not for profit entities owned by their members, medical schemes have to engage with the rest of the industry on the same basis the industry engages with schemes and one another, connecting the industry to the medical scheme consumer.
