
Comments on draft Statement of Issues

Market Inquiry into the Private Healthcare Sector

30th May 2014

The South African Private Practitioners Forum wishes to respond to the invitation to comment on the draft statement of issues concerning the market inquiry into the private healthcare sector.

The market inquiry is to investigate and evaluate facets of the interrelationship between different markets that operate in the private healthcare sector, and to evaluate the effects of competition in these markets. In our view the framework in principle seems appropriate to its purpose.

However the inquiry is predicated on the assumption that there are features in the sector that prevent, distort or restrict competition and that consequently have contributed to rising costs in the private sector, an assumption that the SAPPF is not in entire agreement with. The statement of issues uses as its rationale the fact that only a minority of South Africans can afford private healthcare prices which the statement ads are rising faster than headline inflation.

The premise that pricing in private healthcare is excessively high is not in our view borne out by the evidence or by the findings of the court in the RPL case brought before the Pretoria High Court in 2010.

The assumption that private healthcare costs are excessively high because they are rising faster than headline inflation ignores the very nature of healthcare as a very manpower intensive service which therefore is less amenable to automation and therefore to the lowering of overall costs of services that comprise the CPI basket. (The Baumol Effect). It should also be noted that the items that make up the CPI basket do not adequately represent the cost drivers that affect the cost of private healthcare and for this reason it is proposed that another measure rather than CPI be used to make comparisons between components of the economy.

Is there any evidence to support the notion that private healthcare is more expensive in South Africa than elsewhere or that the private sector is materially more expensive than the public sector once adjustments for VAT and the effects of the tender system on drug prices in the two sectors are made? It is worth bearing in mind that the study by Shivani Ramjee on behalf of found that the difference between private and state hospital costs was only of a magnitude of about 5.5%. In the view of SAPPF these are issues that need to be addressed and provision should therefore be made to include such analyses.

The affordability of private healthcare in this country should be examined having due regard to the rationale for the existence of private healthcare. The role of the private sector is not to provide healthcare services to all South Africans. This is the role of the State. The role of the private healthcare sector is rather to service patients who wish to pay for private healthcare (and, generally speaking, can afford to contribute to medical schemes) while simultaneously providing emergency treatment to paying and non-paying patients alike.

In so doing, the private sector relieves the burden of healthcare provision on the state. Against this backdrop, the proper question to ask of this inquiry is to establish if prices within the medical scheme industry are higher than that being experienced elsewhere in the world, or that fees charged by practitioners are higher here than elsewhere.

Financing the service

The role of coding and tariff schedules in ameliorating inflation in healthcare pricing needs to be examined in the light of the absolute prohibition on price negotiations between funders on the one hand and providers on the other. SAPPF notes that the healthcare industry cannot be compared to the baking of bread and the collusive setting of prices in the bread market. Following the intervention in this sector by the competition authorities in 2004 there has been a ballooning of prices predominantly by new entrants into the market, who have been disadvantaged in not having a coding and tariff schedule to use as a guide to appropriate and fair pricing. It is critical to the normal and efficient functioning of the sector that an acceptable methodology be established for the dissemination of information on coding and tariffs. The sector has been in a shambles ever since the well-intentioned but ill-advised intervention of the competition authorities in this sector in 2004.

Finding an acceptable and legal solution to this conundrum will be a major achievement and will in a single stroke resolve many of the pressing issues around price in the private healthcare sector. Virtually all jurisdictions barring South Africa, in which there is an active private sector utilize a schedule of tariffs and benefits, to guide both the funding and provider arms of the industry.

Following the intervention by the competition authorities the NHRPL process started under the guidance of the CMS and immediately two disciplines (anaesthetics and psychiatry) benefitted from an increase in their schedule of fees. Because they alone were able to comply with the early requirements of the process, there has existed ever since a significant and unfair disparity between the disciplines of anaesthetics and psychiatry and all other disciplines which needs correction.

We also note that the timelines allocated for the various processes in the draft statement of issues seem very ambitious and will probably not allow for an adequate exploration of all significant and relevant factors. These short time periods might thus frustrate the achievement of an appropriate outcome and in our view should be reviewed.

There are additional issues that we believe need to be considered which will be incorporated into our submission to the enquiry which we will simply list for noting here.

These include inter-alia:

- How specialists make decisions on directing patients through the health pathway.
- The impact of the scarcity of skills on competitive rivalry between specialists.
- The impact of the rules and requirements of the HPCSA on competition in the private healthcare market.
- The impact of the skewed distribution of practitioners in different areas
- And last but not least the impact of the specialists contribution to overall costs, the rate of cost increases and the frequency and use of specialist services.

Finally, all participants should be given an opportunity to comment on statements made by other participants in their submissions, insofar as those statements relate to or impact on such participants. This would allow for a more in-depth and comprehensive analysis of the issues. For example, should the hospitals seek to suggest that employment of doctors by hospitals could improve the costs of healthcare delivery, SAPPF would like the opportunity to respond to this contention.



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