Neither Here nor There: The South African Medical Scheme Industry in Limbo

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Social solidarity reforms not fully implemented (no income cross-subsidy, no risk equalisation, no mandatory membership)
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Limited incentives for innovation or growth, an administration industry which is prone to incumbency
Neither Here nor There

Uncomfortable middle ground and cover that is increasingly unaffordable and unsustainable.
Key Concepts
Medical Schemes 101

Primary financing mechanism for private healthcare in South Africa

Not-for-profit entities owned by their members

Social solidarity principles: open enrolment, community rating and prescribed minimum benefits
Mutuality and Solidarity

**Mutuality**: Pooling of risks after risks are assessed – contributions paid according to the assessed risk

**Solidarity**: Risks pooled but contributions assessed on a non-risk based measure – typically ability to pay
Subsidiarity

- **Subsidiarity Principle**: Social Problems should be dealt with at the most localized level consistent with their solution.
Social Security Pillars

Pillar 1
- Universal basic benefit

Pillar 2
- Contributory arrangement with strong social solidarity focus

Pillar 3
- Discretionary Social security over and above essential levels

Medical Schemes

Public healthcare provision

Topup and other insurance
Potential roles for private health cover

- **Supplementary PHI**: provides coverage for additional health services not at all covered by the government/social scheme.

- **Complementary PHI**: complements coverage of government/social insured services by covering all or part of the residual costs not otherwise reimbursed.

- **Duplicate PHI**: Private is alternative to government but individual must still make full contributions to government scheme.

![Graph showing percentage of total population covered by different types of PHI in various countries.](image)
Medical Schemes in Context
Medical Schemes and NHI

Current
- Criticisms of medical schemes
- Insufficient regulatory attention paid to the current stability, sustainability and affordability of medical schemes

Pre-NHI
- Concern that NHI preparations may be compromised by increased instability of medical schemes
- Pathway to manage transition to NHI

NHI
- Uncertainty over role of medical schemes
Inequity of financial resources

SA is an outlier: voluntary health insurance as a percentage of total health spend

Only 16.6% of the population covered, and coverage is concentrated in the top two income quintiles
Desired Outcomes

There is consensus on what the healthcare system should achieve, but the mechanism to get there is contentious. Is there a role for the private healthcare funding sector?

- Rights to Access
- Social Solidarity
- Equity
- Effectiveness
- Appropriateness
- Affordability
- Efficiency
Medical Schemes: a frank assessment
Does the current system achieve solidarity?

- Fragmentation
- Incentives to cherry pick members
- Anti-selection
- Limited extension of cover
- Limited income cross subsidies
Anti-selection

Source: GHS
Access and Affordability

Source: GHS
The current landscape

Solidarity

Mutuality

Public healthcare system

Medical Schemes

Top-up and other insurance

Public

Private
Does the current system achieve subsidiarity?

- Price inelastic
- Latent demand
- Limitations on competition
- Market responsiveness
- Purchasing failures
- Governance and incentives
Limitations on competition

• Barriers to starting a new scheme
  • Requirement for 25% solvency capital combined
  • Member ownership

• Theoretically a competitive market for third party providers
  • But... limited medical schemes with entrenched relationships
a firm’s propensity to act on market knowledge to anticipate and/or rapidly address modifications in customers’ expectations.

Bernardes and Hanna (2009)
• Limited regulatory space for true low-income products
• PMBs are an innovation constraint
• Innovation is driven by third party providers (network development, electronic health records, wellness)
• Challenges in cost containment
  • Failure to curb escalating healthcare costs
• The source of cost escalation is unclear
  • Risk profile
  • Benefit richness changes
  • Increased utilisation for a given risk profile
  • True medical inflation

• **Evidence: not driven by member preference**
• Limited decentralised decision-making
• Limited incentives to grow
  • Fiduciary Trust structure
  • Capital requirements linked to premium
• Disconnect with financial services regulation
  • (twin-peaks, RBC, TCF)
Solutions?
A pluralistic approach makes sense

- Advocated by the ILO as a mechanism for achieving universal coverage
- Ensures institutional diversification and responsiveness
- Achieve both solidarity and subsidiarity goals
- Private health insurance is part of multipronged approach
- Not a simple replacement for NHI
- Allows us to use what we already have
But clarification of roles is required

Mutuality

Solidarity

Public healthcare system

NHI

Pillar 2 private funding for standard package

Top-up and other insurance

Pillar 3 regulated open market

Medical Schemes

Public

Private
But clarification of roles is required

- Strengthened solidarity for pillar 2
  - Will require a common benefit package (revised PMBs)
  - REF reduced fragmentation by creating a virtual pool
    - Schemes share the risk and no longer compete for risk
    - Focus on efficiency, value proposition and price
  - Compulsory contributions for upper-income households to limit anti-selection
  - Income cross subsidisation that is congruent with NHI vision
- Critical in (at least) the interim period before NHI implementation
But clarification of roles is required

- **Strengthened subsidiarity for pillar 2**
  - Reduce barrier to entry and give an option for capital in-flow
    - Introduce for-profit companies with a market driven approach
    - Allow enhanced benefit design freedom
    - Retention of current capacity
    - Regulated by a twin-peaks approach
- **We are not advocating mutuality!**
  - Standard benefit package
  - Central REF
  - Open enrolment
  - Mandatory contributions
  - Income cross subsidy
But clarification of roles is required

- Encourage a vibrant Pillar 3 industry
  - Providers allowed to offer complimentary products
  - Regulated under Short Term or Long Term Insurance acts
  - Unlock synergies between pillar 2 and 3, as well as other financial services products