

Discovery Health's response to the provisional findings of the Health Market Inquiry

Discovery Health welcomes the publication of the provisional findings of the **Health Market Inquiry (HMI)**. The HMI has completed a massive task in assessing several complex markets, analysing extensive data and incorporating detailed stakeholder comment, and we believe that the HMI's findings and recommendations will ultimately strengthen the private healthcare system for the benefit of its consumers.

The HMI has identified the need for improved competition in all sectors of the private healthcare market and has made wide ranging recommendations encompassing a variety of factors and stakeholders. The HMI has also identified a number of the key drivers of rising healthcare costs. We support the conclusion that the high rates of cost inflation is due more to factors such as utilisation (driven by factors such as supplier induced demand, technology etc) rather than simply, an escalation in prices.

We also support the principles of ensuring maximum consumer information and transparency, through the collection and publication of much more relevant information, and most importantly, a focus on ensuring high quality outcomes of treatment. Discovery Health has already done substantial work in this area, and this is a domain in which we believe that we have significant data and expertise to contribute.

We also support the recommendations regarding the urgent need to revise the ethical rules of the HPCSA so as to promote competition, and efficiency in the delivery of care through multi-disciplinary teams and global fees. Our submissions to the HMI have stressed the importance of developing alternative reimbursement models as a way to align incentives for delivering quality, affordable care, and we have consistently pointed out that the HPCSA's rules are an obstacle to these important developments.

We support the recommendation to address the fragmentation of regulation on the supply side, and the recommendation that there be more careful evaluation of need and evidence to be applied in the licensing of hospital and other facilities.

We also support the proposals to allow for maximum fee for service tariffs that professionals charge for Prescribed Minimum Benefits to be determined through an organized tariff determination process, although it will be critical that this process is carefully designed to ensure full participation by all relevant stakeholders, and support the recognition by the HMI that bilateral negotiation remains critical in the case of large corporate providers such as hospital and pathology groups.

We share the HMI's the concerns regarding the complexity of benefit options, and we noted in our submission that the fee for service environment and complexity of PMBs are key contributors to this option complexity.

We note the recommendation regarding the introduction of a base benefit option across all schemes that should be risk equalized across schemes and also the recommendation that schemes can offer supplementary benefits on a risk rated basis. These are progressive and workable proposals, and we are looking forward to working with the regulators to ensure that these changes are implemented in a workable fashion that benefits medical schemes and their members. At the same time, we are mindful of affordability constraints and the need to ensure that PMBs are reviewed to ensure that we are not adding costs to the already hard-pressed members. We also welcome the concept of risk equalisation on the basic benefits and the acknowledgement that a key challenge for medical schemes has been the incomplete implementation of the social solidarity regulatory framework.

We note the references to Discovery Health (DH)'s sustained profitability, and our strong market position. Discovery Health has always worked hard to ensure maximal transparency on both the fees we charge our medical scheme clients, and on the profits we earn as a result. We consistently disclose a significant amount of segmental information on Discovery Health's financial performance each year as part of the financial results announcement of Discovery Ltd. We are proud of the continued growth and success of our business over the past 26 years and believe that this reflects an outstanding business which has been grown life by life on an entirely organic basis.

The true yardstick for consumers to assess the value they receive from their medical scheme administrator is the scheme premiums, which is the actual 'exit' price paid by consumers for their benefits and services. When compared on a like for like basis, Discovery Health Medical Scheme (DHMS) premiums are on average 16.4% lower than the next eight competitor open schemes. This is due to a combination of effective procurement, claims and fraud risk management by Discovery Health.

Similarly, Discovery Health's 18 restricted scheme clients benefit materially from the full range of services provided by Discovery Health, including major claims risk savings which result in lower premium increases over time.

It is critical to note that DH's profitability is not due to DH charging higher fees to its medical scheme clients than its competitors do, but rather due to a number of business factors including continuous innovation and greater operational efficiency driven by management excellence, and by large investments in advanced systems and customer service technologies.

Publicly available data confirms that the weighted average administration expenses and managed care fees incurred by DHMS and restricted access schemes administered by Discovery Health are in line with the overall market. The fees charged to DHMS are in fact the 14th lowest out of 22 open medical schemes when measured on a Rand per beneficiary per month basis, or 10th out of 22 open schemes when measured as proportion of contribution income.

The impact of DH's expertise and systems is acknowledged by the HMI as part of the explanation for its sustained success, and also in the observation that DH is the only administrator that has been able to use countervailing negotiating power to achieve lower hospital tariffs for its client schemes.

We fully agree that scheme trustees should hold administrators accountable for delivering value to the scheme and its members. This is the basis on which we contract with DHMS and our 18 restricted scheme clients, and we continually measure the value created for these schemes and report on this regularly.

We believe that the HMI findings provide a number of positive recommendations to build South Africa's healthcare system and we welcome the opportunity to contribute to this process. We intend to study the report and respond comprehensively to the Chief Justice's plea for meaningful engagement on the provisional report by the deadline of 7 September 2018.

Ends