WHAT REALLY KEEPS PRINCIPAL OFFICERS AWAKE AT NIGHT?

Dr. Stan Moloabi - Principal Officer;
Medshield Medical Scheme

Cape Town
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Agenda

- Governance failures
- Sustainability issues
- Value for money for members
- Policy uncertainty
- Concluding remarks

Governance failures

- Evidenced by curatorships being a constant feature of the Medical Schemes industry
- According to CMS 2015/2016 AR: "…schemes kept on the CMS radar are those that have governance problems….."
- Why are governance problems so prevalent ?

GOVERNANCE

- Governance framework of a medical scheme :
  - section 57 of the Act indicates the general provisions on governance that must be catered for by medical schemes
- Scheme structure – members, Principal Officer, Board of trustees
- Third party service providers
- Governance failures - curatorships

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Governance failures

Possible causes

- Challenges with how Section 57 of the MSA is written and interpreted
- Section 57(1) states: “ Every medical scheme shall have a board of trustees consisting of persons who are fit and proper to **manage** the business contemplated by the medical scheme in accordance with the applicable laws and the rules of such medical scheme”.
- Conflict arises between Governance oversight and Executive management

Corporate Governance advice - King IV™

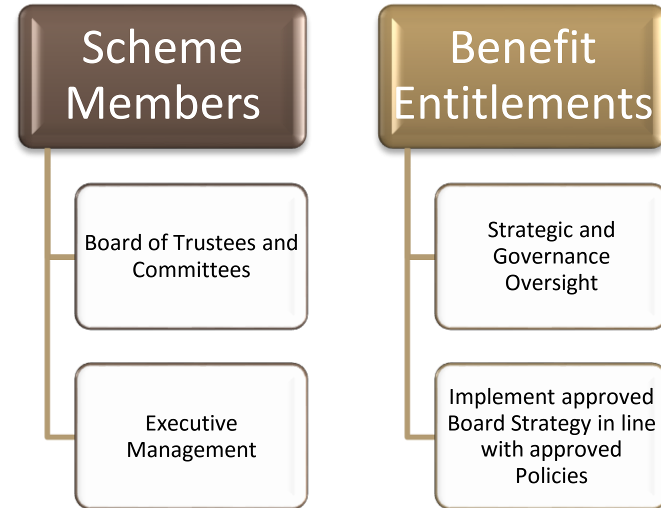
- Governing body governance responsibilities
  - Steer and set strategic direction
  - Approve policy and planning
  - Oversee and monitor
  - Ensure accountability
- Delegation to management
  - Rather than dealing with the establishment of specific management positions for functional areas as was done in King III, King IV recommends for the governing body to oversee that key functional areas are headed by competent individuals and are adequately resourced
- Proportionality

Governance failures

Possible Solutions

- Proper Governance structure
- Clear role definition that differentiates Governing body from Executive management – proper delegations of authority must be in place
- Strict contractual relationship with 3rd party providers maintained
- Ensure accountability
- Inculcate an ethical culture

Proper Governance Structure



Sustainability

Factors putting pressure on schemes’ claims ratios

- Aging medical scheme population – worsening clinical risk profile
- Increased utilization of benefits sometimes due to consumer awareness (PMBs) – demand factor
- Requirement for options to be self-sustaining and Option buy downs
- New health technology – inclusive of new drugs like Biologicals
- Regulatory obligations – Impact of PMBs
- Fraudulent claims

Risk claims ratios for all schemes 2000 – 2015 (2015 Prices) – CMS Annual Report 2015/16

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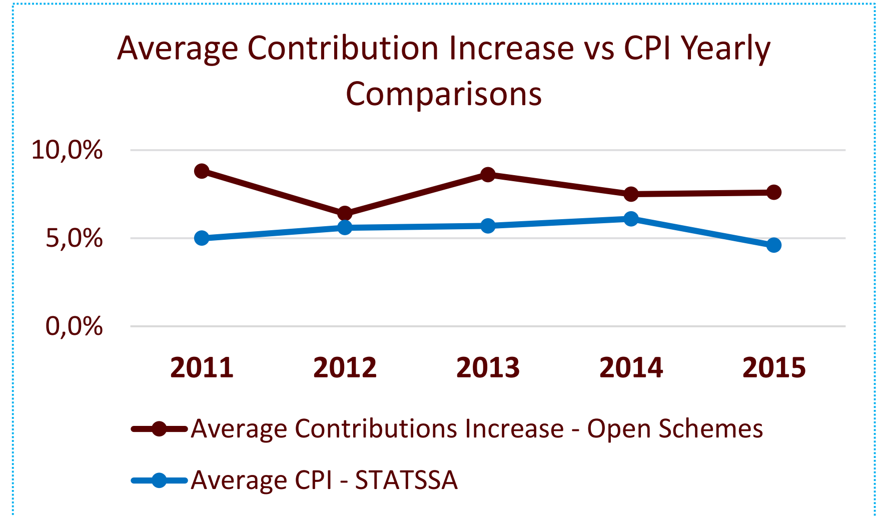
Sustainability

Contribution increases consistently higher than CPI

Source CMS Annual Report 2015/16

- Average contribution increases of open medical schemes are consistently higher than CPI – usually by between 2 and up to 5 per centum
- Annual salary/wage increase settlements are around CPI + (1 – 1.5%) in the recent past
- Current contribution increases therefore not sustainable in the medium to long term



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Value for money for members

Perceptions of medical schemes – Quotes from HMI health consumer survey – November 2016

- “I can’t entertain that amount of money coming off”
- “Always excess fees to be paid”
- “Expensive”
- “Exceptionally high rates”

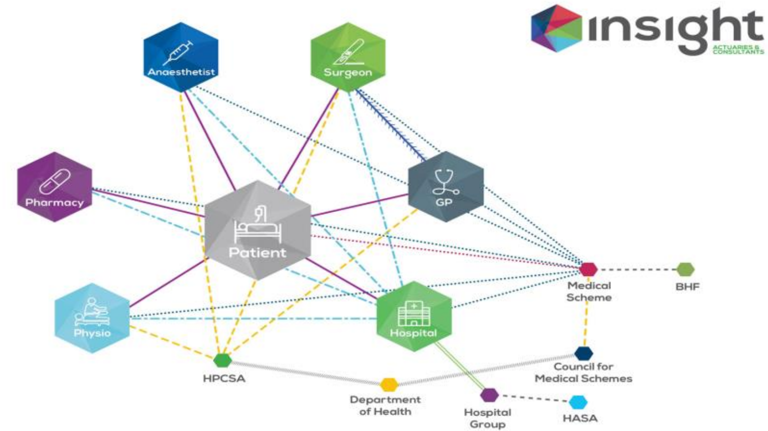
Members need medical schemes to pay when they are most vulnerable

Value for money for members

Are medical schemes delivering value ?

- Simple definition according to MSA: "**business of a medical scheme**" means the business of undertaking liability in return for a premium or contribution
- Problem is conflicting interests of the many stakeholders involved
  - Regulator and Government
  - Service providers
  - Healthcare professionals
  - Employer groups and Labour
  - Advocacy groups
- Of all these stakeholders, the most important stakeholder is the member
  - Member faced with complex scheme rules

Its complicated

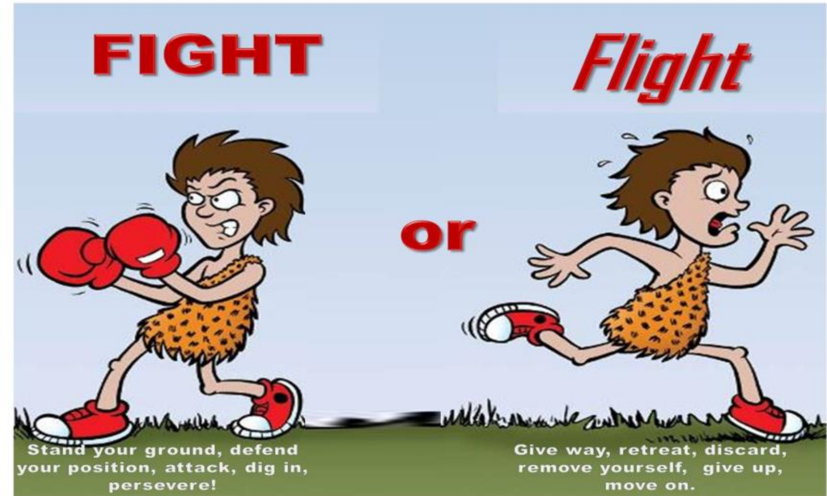


Policy uncertainty

Will medical schemes survive NHI ?

- The perception or belief that NHI threatens to decimate the medical schemes industry persists
- The question is whether such perceptions are unfounded or not
- Commentary on medical schemes in the Policy document is largely non-complementary

Normal reaction to perceived threat



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Policy uncertainty

Role of medical schemes in NHI remains uncertain

- Still no clarity on what the exact role of medical schemes will be even after the recently released NHI Policy document
- Section 8.7 of the NHI Policy document contemplates “the future role of medical schemes” and states in part
  - With the implementation of NHI, the role of medical schemes in the health system will change
  - Once NHI is fully implemented medical schemes will offer complementary cover to fill gaps in the service coverage offered by the NHI

The future is unknown

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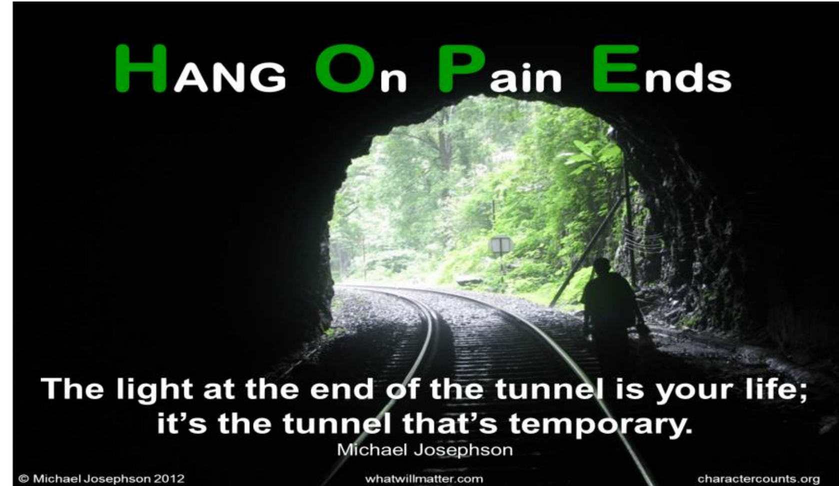
Policy uncertainty

Paragraph 309 of the NHI Policy states

- Government recognises that there is existing expertise residing in the medical schemes industry
- Where necessary and relevant, this expertise may be drawn upon to support the implementation activities for the establishment of a single payer, publicly-administered NHI Fund to build in-house capacity

There is hope



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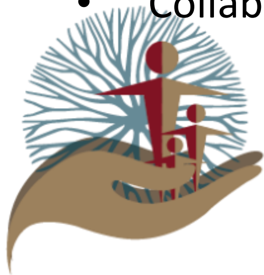
Concluding Remarks

- There has to be “Leadership will” to put proper Governance structures in place to minimise governance failures
- Clarity is required so that schemes can measure whether they sufficiently comply where there is conflicting directives such as with section 57 of the Act
- Competing on benefit design will always put pressure on medical schemes to cover the latest most expensive care that may not be clinically necessary
- Mandatory cover for all employed South Africans would help significantly to keep the young and healthy in the system
- Medical scheme cover should be more primary care driven, more preventative and less hospi-centric, similar to what was envisaged under LCBO
- Collaboration on Fraud is a business imperative within the medical schemes sector



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Concluding Remarks

- Medical schemes should do more to educate members about the value and importance of healthcare insurance cover
- The medical schemes sector is one of the stakeholders who will without any doubt be affected by the implementation of NHI
  - There is a need for “Toenadering” between the Policy makers (Government) and the Healthcare funding sector (Medical schemes) to find a unique South African working solution that will be embraced by all the stakeholders and ensure NHI is implemented successfully, preserving all that is good and healing the ills that exist

Concluding Remarks

Toenadering - the silver bullet that can achieve consensus

THANK YOU

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