

The role of medical schemes in the provision of private medical funding to South Africans

This document has been prepared in response to a letter entitled "A Medical Doctor's Opinion of Discovery Medical Aid" that has been circulated electronically and makes the call for medical doctors to "strike" and refuse to treat Discovery Health members. We believe that this call is being made on the basis of a number of misconceptions as raised in the letter and is extremely irresponsible with respect to the healthcare needs of our members.

Introduction

Discovery Health is firmly committed to and proud of the success and well-being of the private healthcare system in South Africa. Numerous studies have shown that the quality of care available to private patients is comparable to the best in the world. The ongoing success of this model requires that all parties work together to ensure that healthcare cover remains affordable and that the system of funding private healthcare remains financially sustainable in the long term.

Some of Discovery's key strategies to reach these goals include:

- Finding ways to increase the number of people who have access to private healthcare through our KeyCare range of products aimed at lower-income markets. This has the potential to stimulate huge growth in the number of patients available to doctors.
- Ongoing discussions and close working relationships with the bodies representing the healthcare professionals, so that critical issues can be aired and addressed in an environment of open debate.
- A commitment to consumer-driven healthcare and member freedom of choice. This requires that members have as much information about cost and quality that enables them to make appropriate decisions (together with their healthcare provider) as possible. It also requires that we provide a selection of plan types to suit different personal, financial and healthcare needs.

Response

Although we are surprised by the author's reluctance to identify himself or herself, we will assume that this is a legitimate letter and that the individual is indeed a medical doctor. We will therefore respond accordingly, to correct the significant errors, as well as to address the misconceptions generated by this misleading document, which represents the view of one individual.

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Directors: L L Dippenaar (Chairman), A Gore* (Group CEO), Dr. B A Brink, J P Burger, Dr. N J Dlamini, S B Epstein (USA), M I Hilkowitz (Israel), N S Koopowitz*, Dr. T V Maphai, H P Mayers*, J M Robertson* (CIO), S E Sebotsa, B Swartzberg*, S D Whyte*, S V Zilwa, (*Executive). **Secretary:** M J Botha

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The writer makes the claim that Discovery has “**alienated itself from the medical profession.**” This personal opinion flies in the face of objective evidence which increasingly shows that Discovery is the medical scheme of choice for the consumer as well as the healthcare professional. The rate of growth of the Discovery Health Medical Scheme (and more particularly, the very low ‘lapse rate’ or the number of members leaving the scheme) is the strongest evidence of this. Discovery now funds private healthcare for more than 1.8 million people. Added evidence of widespread support among healthcare professionals can be seen from the rapid growth of the Discovery KeyCare doctor network. Over 1 000 doctors joined the network within three months of its inception.

How Discovery reimburses claims

The writer also makes use of the phrase “**blackmail tactics**” in reference to the system we use to reimburse claims. Many medical schemes in South Africa will only reimburse claims up to a medical scheme rate (often linked to the National Health Reference Price List or NHRPL). However, certain health professionals choose to charge their patients what they see as an appropriately higher fee for their services in agreement with their patients.

Discovery Health believes that members and doctors should be free to choose the rate of payment for medical services. Discovery reimburses claims directly to the healthcare professional when the Discovery Health rate is billed. Claims billed higher than the Discovery Health rate are paid directly to the member at a rate determined by the plan type chosen by the member. The member is then responsible for settling the claim with the doctor who charged above the Discovery Health rate.

Discovery’s approach ensures that members are able to buy plans that cover them at the ‘medical aid’ rate. Other members are able to choose plans that will cover them in the event of their being charged ‘private rates’ (up to three times the ‘medical aid’ rate).

For the health professional, this approach offers the choice of dealing directly with the funder or dealing directly with the patient. Extensive actuarial analysis has shown that some of the alternative systems being proposed are irresponsible and not in the interests of the member or patient, the health professional and the industry as a whole.

Linked to the above discussion are the writer’s comments on what he or she believes to be “**Low Consultation Rates**”. The figure quoted in the letter is incorrect. The Discovery Health rate for a surgical specialist consultation is R180 (not R170). This is some 15% *above* the NHRPL rate of R156.40, paid by most funders. As a practising doctor, the writer should be aware of this.

Discovery's Hospital Rating Index

The writer also raises many issues with the **Hospital Rating Index**. Discovery firmly believes that consumers have a fundamental right to an objective assessment of the cost and quality of the hospital service they will receive. Members should then be able to make an informed decision about this, in consultation with their healthcare professional.

The rating system was created in response to several requests from both consumers and the healthcare profession for an objective measure of quality and cost. Healthcare professionals should benefit from the index by encouraging the hospitals themselves to pay greater attention to the value offered to doctors and their patients.

An independent panel of experts has thoroughly reviewed and approved the methodology used in the creation of the index. We are involved in ongoing discussions with key provider groups to review the methodology if and when any problems do emerge.

In fact, one of the key findings of the research into the index was in direct contradiction of the writer's allegation that "**quality in medicine costs more, not less**". International research which informed the development of this index conclusively showed that it is significantly more cost-effective to provide the appropriate quality of care first time round. The Hospital Rating Index analysis comparing South African hospitals has shown that if all care was provided in the top 50% of hospitals by quality, overall costs would come down.

Discovery's KeyCare Plans

The writer expresses a number of strong views with respect to Discovery's **KeyCare package**. KeyCare is Discovery's emerging market plan and has been extremely successful, now offering cover to over 100 000 people. Most importantly, over half of these members previously never had access to private healthcare.

Any plan targeted at this market and which has contributions that are 75% lower than the 'top of the range' plans must rely on certain limitations. These include the use of networks of hospitals and much tighter restrictions on the treatment rules. This cover is clearly inappropriate for any individual who is used to unrestricted cover from their medical scheme.

However, we do know that the 50 000 people who can now afford to access the private healthcare sector for the first time are very happy with the cover they have bought. There are also significant benefits for the medical professionals who choose to join these networks and to treat these patients. As discussed above, over 1 000 doctors have already joined the recently created Discovery KeyCare network.

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Discovery needs motivations for certain treatments

The writer also makes reference to the need for **motivations** for certain treatments. Discovery is very sensitive to the issue of increasing the administrative burden on the doctors and to the perception of interfering in the clinical decision-making process. Motivations to inform our funding decisions are therefore only requested when the cost or type of procedure appears to be at odds with the latest evidence-based, quality and cost-effectiveness studies in the international literature.

Profits need to be seen in the context of services provided and contributions received

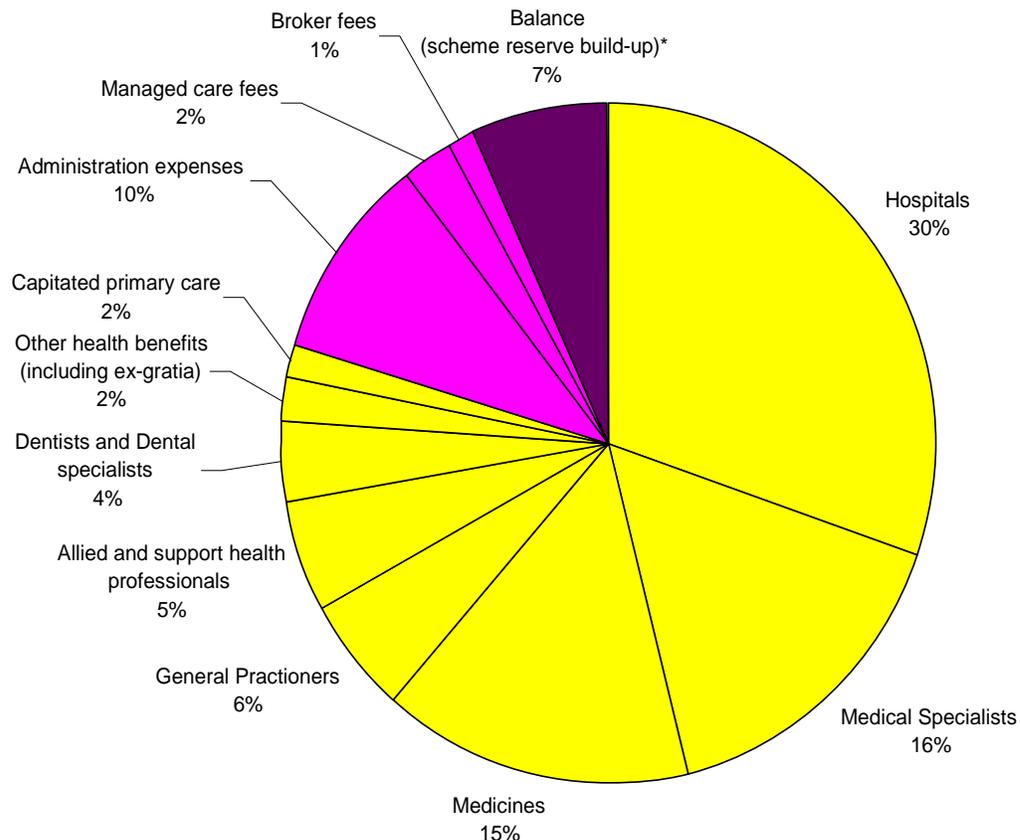
Finally, in response to the author's repeated reference to profits and non-healthcare costs it is important to understand **the role of medical schemes**.

The source of the graph provided in the original letter is unclear, but the Council for Medical Schemes report shows that in 2004 a total of R51 billion was paid in contributions to all medical schemes over 2004. Of this amount, approximately 13bn was collected by Discovery Health. This R51bn is largely responsible for maintaining the current private healthcare system and is used to pay the bulk of the healthcare costs of over 7 million people. The critical role of medical schemes is to ensure the funds collected are allocated as efficiently as possible, ensuring the highest possible quality of healthcare cover but also ensuring that members face affordable contribution increases from year to year.

The accompanying graph shows how the R51bn was allocated according to the Council for Medical Schemes. It appears that medical schemes allocated over R15bn to healthcare professionals of one sort or another – or over 30% of the contributions paid by medical scheme members.

Allocation of Contributions to Medical Schemes in 2004

Source: Derived from figures supplied in the Council for Medical Schemes annual report 2004-5



* A total of 51,3bn was paid in medical scheme contributions. The amounts that were not allocated to healthcare and administration payments were predominantly allocated to the build-up of member reserves or additional savings account balances.

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The R564m profit made by Discovery Health needs to be understood in the context of the services provided and the R13bn of contributions received over the same period. During this time, Discovery provided administration and claims services for over 1.5 million people, including call centre support, claims processing, the provision of various managed-care services, contribution collection, payment and processing of claims, managing networks and maintaining a sophisticated technology infrastructure to ensure the highest possible service levels to our members and healthcare partners.

All healthcare systems throughout the world need some form of financial administration and claims processing mechanism for the financial pooling of funds to provide for the costs of healthcare services. The fees charged by Discovery to administer the medical scheme have been compared to similar organisations around the world. The results show that Discovery's costs compare favourably with international benchmarks of the most effective and efficient organisations.

Discovery does share the writer's concern with the **'lion's share' of health expenditure going to hospitals**. Constantly increasing hospital costs, coupled with members' 'buy down' to hospital-only plans have created a negative spiral which has resulted in hospitals consuming an increasing slice of the health expenditure, to the detriment of health professionals. Discovery has in fact launched a series of plans, the Priority Plans, specifically to address this concerning trend.

Conclusion

The key allegation implicit throughout the article is a lack of interest in the plight of doctors and specialists in South Africa and an unwillingness to engage with them. In fact, we work tirelessly to communicate with and engage with the healthcare professionals in South Africa.

Discovery believes that the 'strike' being called for by this anonymous individual, or his or her call to doctors to emigrate, is irresponsible and does not contribute to the development of solutions to the issues raised. Discovery remains committed to working with all key roleplayers (especially the health professionals) in a constructive and transparent way to ensure an increasing number of consumers will be able to access our world-class healthcare system.

Addendum

Please see the attached articles which have been published monthly in a widely read medical publication for further detail on some of the issues covered below. They have been written to medical providers and should be read in that context. They also illustrate one of the mechanisms Discovery uses in our ongoing constructive interaction with the medical profession to debate complex issues in an open and transparent manner.

Article	Description
"Consumer Driven Healthcare"	Three articles explaining various concepts around consumer driven healthcare
"Running a Financially Rewarding Private Practice sustainably – the Funders' Role"	Billing practices and the rationale for Discovery's approach
"Why a Hospital rating Index is important to the Profession"	The benefits of the Hospital Rating Index to healthcare professionals
"Unlocking the Emerging Market – an Innovative Funding Model"	How the KeyCare product is intended to improve access to private healthcare for the emerging market
"The Best of Both Worlds: Affordable, Comprehensive Cover for Members; Increased Revenue for Health Professionals"	How the creation of the Priority Series is intended to help address increased hospital costs in favour of better out-of-hospital cover

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