



Risk Management Specialists

# The Risk of Funding Healthcare

*“It has been said that figures rule the world.*

*Maybe.....*

*What I am sure is that figures show us  
whether it is being ruled well or badly.”*

Goethe ...



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# Healthcare is a System

Containing

Many Processes

That will vary in

Efficiency

Some Good – Others Poor

# Scheme Expenditure

## Areas:

- 15% - Operational Costs
- 5% - Reserving
- 80% - Health Costs

# Flow

For every R100 Contribution:

- R15 - Admin of Funder (scheme)
- R5 - Reserving
- R80 - Paid to Provider
- R28 on non-clinical Costs (35%)



Therefore the figures say .....

For every R100 contributed

R43

is spent on operational and/or

non-clinical Costs

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# Average Contribution

To a medical scheme in 2005:

R1800 pm

Therefore

R774

is spent maintaining the

**Healthcare System.**



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# The Remaining R57 ...

Funds the purely clinical aspects of:

Hospitals

Pharmaceuticals

Diagnostic Services

Specialists, etc, etc, etc

## Let's Take a Look!!



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# SA's Healthcare Market

The “Single & Fundamental” Problem is:

There is no Competition

For the Business of the Patient



Reason

Third Party Pays

Consumer is Uninformed (Not ignorant)

Provider Induces Extent of Demand



# Currently

Competition in the Healthcare market exists:

- Amongst Funders - High
- Amongst Providers - Growing

BUT

- Provider Group - BRAND
- Individual Doctor – Speculative Hear Say



# Where Should It Be??

Competition in any Healthcare market

Should reside at

The level of

**Diagnosis, Treatment & Outcome**



# What Does that Mean??

Making a bid for business

Through the Use of

Higher levels of Efficiencies in

**Diagnosis & Treatment**  
**& Thus Improved Outcomes**



# Such Competition would ..

Stimulate improvements in

Efficiencies (Clinical & Operational)

Reduce clinical errors, and  
improve outcomes

To create a

**Substantially More Efficient System**

# Background on Regulations

Prescribed Minimum Benefits

(Guaranteed Services)

- Defines who pays & without restriction

And Worse Still .....

- Requires no measure of Value/Quality

# Current Scheme Contracts

- Based on Price & Volume
- Fixed Reimbursement
  - Locks in the Inefficiencies in providers price.
- No or Little focus on quality
- No measurement of quality (i.e. VALUE)



# Result

- Cost Shifting
  - Specialists to Providers (Hosp, Diagnostics, etc)
  - Providers to Funders
  - Funders to Members
    - Increased Price & Limited Benefit
- Catch 22 for Scheme - Volume & Price
- Provider - Guaranteed Income regardless of Quality



# Provider Reaction

- Consolidation - Volumes
- Contracting at BRAND level only!!!!
- Locks in the Funder - Price advantage 1 Year
- Restricts Choice ..... and once again
- No focus on quality (VALUE)



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# Best Step Forward



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- Contracting
  - Insist on clinical data regardless of contract
  - Force Contracting at Institution Level NOT Brand Level
- SA now has coding (ICD10)
  - Start Measuring
  - Make it an integral part of your business
  - Ideally – National Central Repository
- Publish the data publicly
  - Available to both members and providers



# Best Step Forward

- Seek Pockets of Clinical Excellence
  - Low Frequency but High Cost & Complex Cases
- Highly Specialised Providers
  - Have much lower error rates
  - Superior Clinical Knowledge
- Result = Improved Outcomes at Lower Cost



# Best Step Forward

- Contract according to Outcomes Measurement
- Remunerate relevant to Quality of Outcomes

NOT on Price or Volumes



# Challenges

- Funders
  - Over Regulated
  - Historically fragmented (Fear loss of market share)
- Providers
  - Insufficient Regulation
  - Historically well united



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Thank You