COMMENT: Governmental failure responsible for private health sector's high fever – Business Day (3 October)

The stark contrast between the dodgy work-up for the proposed NH and the detailed, carefully considered analysis that has gone into the Competition Commission's HMI reflects different styles of Government, wrote health economist Alex van den Heever in ***Business Day*** (3 October 2019).

One is overtly dominated by patronage politics, and the other is careful, meticulous and clean and able to combine solid technical research with painstaking consultation and quality engagement. The report of the market inquiry represents only the second such inquiry in the world, and differs markedly in scope and comprehensiveness from its UK equivalent. In a nutshell, its diagnostic argues, with evidence and rational argument, that the market failures of the private health system derive from a failure of government to install a coherent regulatory framework. While it is apparently a surprise to the Department of Health that unregulated private health markets fail, it is one of the most well addressed aspects in the field of health economics, together with the remedies. While remedies vary according to specific features of a national context, the key measures remain the same. To date, and in the absence of any analysis, the department has tried to attack the failings of the private health system as if they are an inevitable outcome of rampant greed, the capitalist system and the commodification of healthcare. While the regulatory framework in place has fostered problematic conduct on the part of private actors, just as the patronage system in the public sector has done, the question valid representatives of the public interest had to answer was whether these outcomes are inevitable and unavoidable.

The health market inquiry has provided a responsible and reasoned answer. The private sector reflects substantial market failures, which are neither inevitable nor fatal. The failures are, however, attributable to government failure as are the failures of the public system.

Reckless disregard

Whereas the department has acted with reckless disregard towards the private sector, either through incompetence or a desire to undermine private coverage to create an impetus for NHI, the recommendations of the health market inquiry seek to stabilise private health coverage as a central pillar of the system of universal coverage together with the public health system. This in no way inhibits the development of a system of general tax-funded public sector coverage. Instead it stabilises it at a time when the government is in no position to make or keep expanded coverage promises. The inquiry concludes, importantly, that the policy framework required to deal with the market failures involves the establishment of a complete, rather than partial, set of structural reforms. A partial approach, it argues, will retain the market failures. This is important.

No competitive pressure

As medical schemes are under no competitive pressure to contract with healthcare providers efficiently, due to conflicted broker markets and substantial market concentration, they fail to innovate. Furthermore, the report noted substantial conflicts of interest, through ownership structures, between medical scheme administrators, healthcare providers, pharmaceutical manufacturing and distribution. The integrity of the purchaser-provider split has therefore been broken and funders protect providers from competition instead of establishing arrangements that are in the interest of medical scheme members.

The report explicitly notes that Discovery Health (theadministrator), in an environment of rising provider costs, makes profits that are "multiples" of its competitors. It also notes that hospital groups make healthy and continued profits regardless of general market conditions. It indicates that an industry that should be carrying risk for service cost and quality is essentially passing it on to households that are too atomised and disorganised to manage it. So, a massive, hugely profitable industry, embodying substantial technical expertise says (in so many words) “households must manage health system costs and the risk of poor-quality care” because it cannot.

Taking a different position

Well, the Health Market Inquiry takes a different position. It says not only that it can carry the risk, but that it must do so. But for this to happen, various structural reforms are required to reshape the distribution of risk, so it is carried at the correct levels of the system. This is achieved through measures designed to adjust the power relationship between users of the health system and the various private sector intermediaries. First, market transparency is enhanced so consumers can make realistic choices in real time through simplifying the product offerings (in the case of medical schemes) and public reporting on performance in the case of health services. The simplification of offerings involves two central measures: a standardised easy-to-understand basic benefit that all schemes must offer; and a risk-adjustment mechanism (RAM) that equalises the demographic risk of all schemes. The RAM pools risks at an industry level and ensures price competition on the benefit package is based exclusively on differences in the cost and quality of care provided. Transparency of provider performance deals with the requirement for competition on quality of care. Furthermore, the opt-in broker framework ensures brokers serve medical scheme members and not administrators.

Scuppered

Second, to the extent that parts of the private health market retain fee-for-service, or near fee-for-service arrangements, all prices and related features of a price will be subject to a multilateral negotiation framework. However, negotiations that incorporate the cost and quality of care negotiated on a bilateral basis would not be regulated. This overall approach has been mooted in the past, but scuppered through vested interest lobbies targeting the Health Ministry. While certain Health Ministers sought to publicly berate the private health industry for the unsustainable cost increases, behind the scenes they pulled back reforms that would have tackled them.

Third, the regulatory framework would need additional strings in its bow compared to the paltry system we have now. Additional functions include the management of product transparency,provider conflicts of interest, price regulation (only) where fee-for-service markets are maintained, medical schemes governance, provider licensing and reporting, and elimination of conflicted regulators. An important part of the recommendations is the removal of political appointments to regulators. For those in the industry, the perverse regulatory outcomes of patronage appointments are well-known. The question is whether the private interests of the governing party will be given preference over the public interest, whether patronage will again triumph. In many ways, the existence of this report is a sign of a change.