Final Health Market Inquiry Report released

Laura Lopez Gonzalez: Mail & Guardian, 30 September 2019

SOUTH Africans are paying more for private healthcare than ever before. But forking over more cash for more - and often unnecessary - care, isn't paying off for consumers, according to an investigation by the Competition Commission. The Competition Commission today released the final report on its Health Market Inquiry in Johannesburg. The 256-page document is the outcome of half a decade of research by the body, which included public hearings, written submissions and meetings with key players in the private health industry. The report is also the most detailed picture of private healthcare in the country's history, revealing new details on everything from ownership and profit patterns to how health facilities contract doctors. The report echoes the inquiry's 2018 interim findings that a lack of competition in the private healthcare industry is fuelling increasingly unaffordable healthcare costs. It is also incentivising doctors and private health facilities to over-treat patients, sending them to hospital more frequently and for longer without any real medical benefit. This is particularly true in areas like Gauteng and the Western Cape where there are more hospitals and doctors. And with power concentrated in the hands of just a few major hospital groups, there is little motivation for hospitals and doctors to try to bring down costs and hardly any room for transformation. Former Health Minister Aaron Motsoaledi pushed for the inquiry ahead of its 2013 launch. Motsoaledi wanted to understand just why private healthcare was so expensive before the government began buying services from the sector under the National Health Insurance (NHI). The Commission's final recommendations have - in many ways - already begun shaping the country's NHI transition.

Three hospital groups have 90% of the market

South Africa's population has grown by almost three-million in the last decade, but the number of public hospital beds in the country has barely budged, the Commission found. In the private sector, the number of hospital beds, however, has nearly doubled. According to Statistics South Africa, fewer than 1 in 5 South Africans were members of medical aids in 2018. Just three hospital groups - Netcare, LifeHealthcare and Mediclinic - account for 90 percent of the private hospital market, based on 2016 hospital bed numbers. Independently-owned facilities make up the remaining 10 percent of the market. The high concentration of power in this sector, the Commission notes, makes it vulnerable to collusion, both formally through the creation of cartels and informally. This is because - in theory - it would be easy for a small number of players to engage in price fixing, setting the tone for the market. Without much competition, the three major hospital groups "all but dictate year-on-year price and cost increases" for medical aids and administrators while reaping the benefits of over-treatment at their facilities. The Competition Commission's report attributes over-treatment to two factors: Monetary incentives for doctors and facilities to admit more patients and a phenomenon called supplier-induced demand. The concept is premised on the more supply you have of beds, doctors, medicine, the more people use them regardless of whether they need them or not.

In its 2018 report, the Commission analysed hospital claims and found that almost a third of claims costs couldn't be explained by factors such as a patient's age or disease. These

mysterious charges were being passed onto consumers in the form of increased premiums, the Commission argued. But hospital groups say that doctors also play a role in over-prescribing care. The Competition Commission inquiry, however, maintains that health facilities and doctors play complementary roles in the phenomena - something for which the body found evidence for when reviewing contracts between the two that encourage doctors to admit more patients. The costs of this pricey hospital care are passed largely onto medical aids - and consumers, the Commission found. The Competition Commission writes: "[Large hospital groups] facilitate and benefit from excessive utilisation of healthcare services, without the need to contain costs, and they continue to invest in new capacity beyond justifiable clinical need without being disciplined by competitive forces." And with great market power, the ability to set your own prices is almost a given. "Hospital groups have the market power to threaten that the national price for all their hospitals would have to increase," the report quotes Discovery Health as testifying, "if there was a threat that a hospital in their group might be excluded from a local network [of preferred providers]."

The Commission's report also found that Netcare, LifeHealthcare and Mediclinic have unfair advantages that keeps them in the lead and prevents transformation in the sector, because the practises make it hard for new players to enter. For instance, the three were able to cross-subsidise facilities across their vast networks, meaning they were able to use profits from well-performing hospitals to make up for poorer earning ones. And, the Commission says, the "big three" were able to lure the best doctors to their wards with lucrative benefits smaller hospitals just can't afford. The Competition Commission was able to gain access to some contracts between specialists and health facilities, although the report does not reveal which facilities or doctors the agreements refer to. In some instances, the Commission found that specialists who agreed to admit their patients into certain private health facilities over others were offered preferential financing in terms of loan servicing rates and repayment rates to buy shares from larger hospital groups. The report recommends that the Health Professions Council of South Africa investigates this practice. The Commission also unearthed evidence that some private health facilities encourage doctors to admit higher volumes of patients, "making full or maximum use of the facilities" or ensure that they "treat a minimum proportion" of their patients in the facility. This includes setting targets for admissions and penalising specialists who contract with them if they didn't meet these goals. Meanwhile, hospital admissions rates have skyrocketed in the last 10 years among those with medical aid - the Competition Commission found this increase could not be attributed to the overall health of the population.

Black entrepreneurs may get licenses to open new hospitals, but can't get the cash

Major hospital groups are pushing back against the contention that they have a firm hold on the market, in part arguing that many new hospital licenses have been granted to smaller entities. The Commission has fired back, saying that although some would-be hospital owners - particularly black, coloured or Indian entrepreneurs - are able to secure licenses, they struggle to get financial backing. Those who can't get this kind of capital are forced to sell their licenses to bigger hospital groups.

Commission proposes mandatory basic benefit for all medical scheme members

Why did the private healthcare sector get so out of whack? Well, it's in part because major sections of the National Health Act, that allow the National Health Department to regulate the private healthcare sector, were never enforced, the Competition Commission says. The National Health Department did manage to introduce a list of 270 largely hospital-based conditions and treatments - called prescribed minimum benefits - in 1998 that medical aids must legally cover. But the list is woefully out of date. Work to redefine prescribed minimum benefits is already underway. In line with the inquiry's previous recommendations, the Health Department is hoping to make it more comprehensive and allow it to cover day-to-day needs like contraception. The Council for Medical Schemes is also busy designing a standard medical aid package that will one day be offered by all schemes, something the Commission proposed in its 2018 report. The offering will have to spell out exactly what it does and doesn't cover and the Council for Medical Schemes will review it every two years. With each of the country's medical aids offering the same standard package, consumers will be better able to compare value for money between medical schemes. Medical schemes, in turn, will have to work harder to make care better and more affordable to woo new clients. But today's report adds a new twist: The Commission has proposed this standard package be mandatory for all medical aid members. Those who want expanded cover will then "top up" by buying additional cover. Gap cover, the body says, will become a thing of the past.

Does this sound familiar? This is a similar structure to what the NHI proposes: One mandatory basic package of care provided by the state with medical aids selling additional cover. The Commission has also put forward sweeping changes to improve, for instance, the issuing of hospital licenses, the monitoring of possibly anti-competitive mergers and centralising health data from both private and public facilities to improve accountability. None of these, it cautions, should be implemented as standalone measures. Perhaps one of the investigation's most important recommendations is the creation of a body that will one day reduce supplier-induced demand, or the private healthcare system's tendency to provide more care in areas with higher numbers of doctors and facilities. The proposed independent "supply-side healthcare regulatory authority" would be independently funded by the government. The body would take over what are currently opaque provincial processes for issuing new licenses for healthcare facilities. It will also handle the issuing of practice numbers in consultation with the Office of Health Standards Compliance to help facilitate the contracting and payment of healthcare providers under the NHI. The new authority would coordinate a forum to decide the price of services under the NHI. This may be a tall order when historic distrust remains between members of the public and private health sectors and when private healthcare members, the Commission notes, are loath to even discuss billing codes for fear of divulging sensitive information. The United Kingdom's National Health Services has a similar regulator. "All healthcare purchasers, including the NHI, will require providers to be properly regulated in order to achieve affordable access to quality care," the Commission warns. "Any single buyer system, like the NHI Fund, on its own, that is without complementary supply-side regulation, cannot succeed."

The final report of the Health Market Inquiry can be found at:
http://www.compcom.co.za/wp-content/uploads/2014/09/Health-Market-Inquiry-Report.pdf