

Healthcare - avoid taking a turn for the worse

□ Gillian Handley

The state wants to bring affordable healthcare to the masses by shifting some of the burden to the private sector. To do this, private sector healthcare must become more affordable. Is managed healthcare the way to do it?

The Medical Schemes Act of 1967 created monolithic medical schemes and split medical care between the care for the majority and the tightly controlled private care for the few. After 30 years, says the Medical Association of South Africa (MASA), medical schemes have not managed to provide cover to more than 20% of the population.

Deregulation in 1994 created more options. The insurance industry launched new products either as supplements to medical aids, in the form of top up insurance or as a substitute for medical aids and their indemnity-type insurance through stated benefits policies. The so-called "new generation" schemes have been doing well. Members manage their day to day medical expenses through medical savings accounts and rely on medical aids and insurers for uncontrollable expenses.

The old fee-for-service caused hyper-inflation and underwriting losses. Managed healthcare is seen as a means of containing costs and curbing abuses.

Neville Koopowitz, Director at the Pride Group gives a definition of managed care as: any mechanism whereby structures are put into place with the objective of reducing costs or containing costs, while at the same time maintaining an adequate standard of healthcare. As such, managed care has been a part of many medical schemes for a while.

Koopowitz describes the tools of managed care:

Utilisation reviews

Providers are subject to review with the aim of containing costs. The member remains on a fee-for-service structure but the administrator or healthcare insurer imposes checks and balances from the outside. Members still choose their own service provider.



Neville Koopowitz - Director of The Pride Group

Bulk purchasing

Bulk purchasing (eg of medicines) is used as a means of containing costs.

Preferred Provider Organisations (PPO)

Members are incentivised to use a particular group of providers who will give the scheme a better rate.

Pure managed care

Here the medical scheme and the provider form a partnership. The HMO or Health Maintenance Organisation is the most common example. In return for a set fee per member, known as a capitation fee, the HMO delivers all care associated with a member. The patient's freedom of choice becomes much more limited.

Kathy Walstead-Plumb, CEO of Southern Healthcare adds case management and information technology to the list of managed care tools.

Dr Bernard Mandell, Chairman of the MASA, says there is no ideal managed healthcare model and in SA this concept is likely to develop over a period of time. The most successful ones will be those that are best aligned to distinct environmental and competitive factors in a specific area.

MASA's criteria for managed healthcare delivery systems require:

- the involvement of participating doctors in management decisions affecting the quality of care
- clinical independence of doctors to act in their patients' best interests
- once a managed healthcare delivery system has assumed responsibility for a patient, treatment should not be denied for financial reasons.

MASA is adamant that all healthcare insurers should fall under the same regulations, be compelled to offer certain minimum benefits and should not be allowed to discriminate against the aged and chronically ill.

A change of medicine

Most of the larger medical aids practice some form of managed care and the life companies products are another dimension of it. In addition to this, some heavy weight players are entering the arena as providers of integrated (to a greater or lesser degree) services to medical funds and independent employers. The big names here are Southern Healthcare JV, a joint venture involving Anglo American, Southern Life and the US based United Healthcare Corporation, Sanlam Health, Healthcare Management Services, a division of SA Druggists and the Care Corporation.

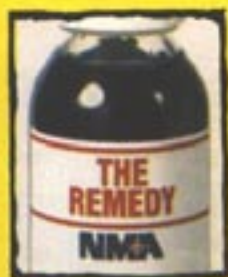
Deon Harmse, Chief Advisor of Healthcare at Sanlam Health believes Sanlam will be able to keep costs down because they will be investing in services, not "mortar and bricks".

The company is negotiating with a number of medical aid schemes at the moment. Obviously their own medical aids are on board but there is a suggestion that independent medical aids may not be attracted that easily to the managed care companies as they are essentially in competition with each other.

Sanlam Health follows a medical quality standard that was developed with

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Stellenbosch University. They are also linked to Visimed's Crisis Line which Harnise describes as an effective cost cutting tool as it cuts down on consultations and unnecessary services.

Southern Healthcare, says Walstead-Plumb, takes the only fully integrated managed care approach in the country. United Healthcare Corporation was rated number one among healthcare companies in Fortune Magazine for the past two years. Walstead-Plumb cites the company's flexibility as one of its greatest assets. The South African operation is part of United's strategy of creating a worldwide database. The software system that underpins the whole service was developed over years at the cost of over R1 billion. In addition to this, South African doctors will provide insight on unique South African patterns.

Southern will start nationally in January with 150 000 members for which they need 600 doctors.

Wooing the doctors

The support of doctors is critical if integrated managed care is to work but at the moment there is too much scepticism between providers and funders.

Koopowitz believes good service providers are unlikely to join such systems which are more likely to appeal to those just entering and those about to leave the profession.

Walstead-Plumb disagrees. She says doctors need to have sufficient incentive to join. Southern's fee schedule is very generous, she says and they have made significant concessions to MASA and the SAMCC. Doctors' fears of interference are unfounded as Southern monitors patterns of care, not just individual cases.

The employer

MASA sees a wide spectrum of managed care plans emerging. Each employer together with the staff and the trade union should design a medical benefit according to the diverse needs of the employees.

Robin Melville, MD of D&E Health Benefits: "It is necessary that the healthcare product develops ways of preventing over-servicing and over-use and is progressive in its approach to managed care.

"This is especially important in view of the proposed restructuring of the national health system for universal primary health care, which implies that employers will be obliged to offer a core hospital product to all their staff"

Under the new LRA, statutory and bargaining councils will be able to set up and run medical aid funds for their members.

Koopowitz advocates a healthcare strategy that reduces the need for services through preventative measures and at the same time, cutting costs without compromising quality, through managed care techniques.

Fedhealth's Rod Harpur says that due to union pressures, employers are likely to make more than one scheme available with different options.

The future

Harpur sees fully fledged HMO's as being four or five years away. There will, he says, be three areas in the private healthcare arena: the traditional fee-for-service, the managed fee for service and the HMO approach. Fedhealth has moved to a managed fee for service situation which is doing well. Harpur points to the new generation type of scheme where members savings accounts have grown from R5 million to



Kathy Walstead-Plumb CEO of Southern Healthcare

R57million in 18 months.

Koopowitz also sees a three tiered system. At the bottom, primary healthcare. In the middle, for employees that cannot afford a fee-for-service situation, a mandatory hospital plan in conjunction with an HMO-type situation. At the top, a fee-for-service for employees that can afford it.

What about medical aids? Harmse believes medical aids will still be around, since medical schemes are in the business of risk sharing and managed healthcare is about clinical control. Managed healthcare is an additional arm to the business that puts in the necessary cost controls. He believes the whole healthcare system will function better and a lot of the current abuses and cost inefficiencies will be eradicated.

General consensus is that we will see new partnerships and the demise of many smaller medical aids. Purchasing power and IT advantage will give the edge, says Koopowitz.

The bottom line? Managed healthcare is here to stay. For the consumer prospects are bright. For the employer - choose the system that works for you and your employees, but take heed of our case study and do your homework well.

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Case study: page 18

Selecting a managed care plan - a check-list.

Financial aspects and risk

- Who are the sponsors of the plan and who gains financially?
- Is the plan structured to protect an individual group's vested interests?
- Does the plan use community rating or experience rating in developing premiums?
- Are premiums adjusted for geographical and demographic variations?
- What are the financial reserves?
- Are financial reports available?
- Is the risk clearly defined?
- Are the financial aspects and risks clearly communicated?
- Who carries the risk?
- Is the plan trying to do too much?
- What happens to disabled patients, pensioners and widows?
- Does the plan ensure continuity of care?
- Are premiums stratified for age and sex?

Services offered

- Does the plan have a member and employer service department?
- Is there a formal grievance procedure?
- How will quality and claims problems be resolved?
- What non-medical information is available to members?
- Is there a flexible and efficient claims processing system?
- Does the plan provide regular reports and feedback?
- Are reports appropriate?

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Operational people are not good strategic thinkers

Most operational people are not good strategic thinkers because they spend their entire careers dealing exclusively with operational issues. With few exceptions, only the CEO or the General Manager see the "big picture" and view the business and its environment in strategic terms. Lesson No.3 : The CEO may encourage the participation of key subordinates for strictly educational value. People will implement a strategy more effectively if they understand the differences between a strategic process and operating planning, as well as the difference between strategic and operational issues.

The Strategy is developed by an outside consultant

This is the worst of all strategic crimes and the "kiss of death" for any strategy - even a good one. No outside consultant has the right to set the direc-

tion of an organization or knows as much as the company's own people about the business and the environment it is facing. Most strategies developed by outside consultant end up in the wastepaper basket for two reasons:- everyone can quickly tear the conclusions apart because they are not based on an intimate knowledge of the company, the business or the industry -there is no commitment to that strategy by senior management because it is not their strategy. Experience has shown that almost any strategy will work, unless it is completely invalidated by negative environmental factors. In effect, if total commitment is not present, those uncommitted to the strategy will do everything possible to prove it wrong. Lesson No. 4 : People don't implement what they are not committed to. In order to obtain commitment, key managers must be involved at each step of the process so that their views are heard and discussed. Participation breathes commitment. Key managers buy into strategy because they

help construct it. It is as much their strategy as the CEOs.

The critical issues are not identified

One aspect of strategy is its formulation, another is thinking through its implications. Too many strategic planning processes don't encourage people to think through the implications of their strategy. As a result, they end up reacting to unexpected events as they are encountered and start losing faith in the strategy. Lesson No. 5 : People give up on a strategy whose implications have not been anticipated A good strategic process should help management identify and manage the implications of a strategy on the companies' products, markets, customers, organizational structure, personnel, culture, etc. For further information, contact Decision Processes International (DPI) in South Africa on (011) 706 8118/9 - Rex Glanville or Ralph Harris

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