

2 September 2019

Dear Colleagues

Many doctors and other health professional colleagues have reached out to us to get our views on the National Health Insurance (NHI) Bill and how we see this impacting on the health care system, including private healthcare, going forward. This letter is intended to share our current views at a high level. We have also arranged a number of update sessions for health professionals around the country and will continue to arrange these going forward. We are now at the early stage of active engagement between the policy makers driving the NHI process and various organisations representing private healthcare, and we will also share updates on these developments on an ongoing basis.

### **Discovery's perspectives on NHI**

Discovery recognises the deep inequalities in our current healthcare system, and for this reason, we support the drive towards ensuring that all South Africans have access to quality health services based on need rather than affordability. We therefore support an NHI that assists in strengthening and improving the healthcare system for all South Africans.

We also believe that the publication of the NHI Bill creates a very important opportunity for active collaboration between the Department of Health and the private healthcare sector, to ensure that the assets, skills and experience available in the private healthcare system are maximally leveraged to ensure the success of the NHI roll out.

The NHI is a huge, complex and multi-decade initiative and a considerable amount of debate and effort will be required to make it workable. Discovery is committed to assisting where we can in building the NHI, and making it workable and sustainable. We believe that all stakeholders with an interest in the future of our country should take the same approach. Of course, debates about its timing, affordability, and execution will no doubt be complex.

In the following sections, we discuss four key issues arising from the NHI Bill – the role of medical schemes, the financing of the NHI and the resulting tax implications, the role of private hospitals and professionals within and outside of the NHI, and the NHI policy process going forward.

### **The role of private healthcare and medical schemes as envisaged in the NHI Bill**

The NHI Bill contains only one paragraph (Section 33) specifically referencing the role of medical schemes. This paragraph indicates that “once National Health Insurance has been fully implemented as determined by the Minister through regulations in the Gazette, medical schemes may only offer complementary cover to services not reimbursable by the Fund”.

This clause raises the issue of the future role of private healthcare and medical schemes – and in particular, what it means for medical schemes to provide “complementary cover” to the NHI and when this will take effect.

We have no doubt that the medical scheme system will change and evolve over time as the NHI emerges. To the extent that the NHI creates competition for medical schemes, this must be a good thing as it will mean that citizens will have more choice, and competition will ensure that we all remain ‘on our toes’ in providing good service and high value products and services to our clients/patients.

However, our strong view is that substantially limiting the role of medical schemes would be counterproductive to the NHI because there are simply insufficient resources to meet the needs of all South Africans - this is an unavoidable reality.

Limiting people from purchasing the medical scheme coverage they seek will seriously curtail the healthcare they expect and demand. This will erode sentiment, denude the country of skills and impact the economy. Crucially, by preventing those who can afford it from using their medical scheme cover, and forcing them into the NHI system, this approach will also have the effect of increasing the burden on the NHI and will drain the very resources that must be used for people in most need. This would be detrimental to all South Africans, and would undermine the objectives of the NHI as we understand it.

While this is our view, we are seeking clarity and actively engaging with the key policymakers on the potential impact of the NHI Bill on the future role of private healthcare and medical schemes. The NHI Bill makes the point that this “complementary role” for medical schemes will only apply once the NHI is “fully implemented” and it defines “referral pathways” to which it will apply, indicating that where patients choose not to follow the referral pathways, the NHI will not reimburse their care, and that they can then claim from private health insurance. Recent discussions with senior policy makers have confirmed this understanding – that where patients elect not to use the NHI pathways and NHI accredited providers, they will be free to obtain cover from medical schemes and schemes will be able to provide such cover. This speaks to a continued and important role for medical schemes, and we will engage actively and constructively to make these points and to ensure an ongoing critical role for medical schemes and for private healthcare providers as the process goes forward.

Importantly, while we do expect medical scheme products to evolve over time (as they have and continue to do at present) we do not envisage any material impact on medical schemes, and on the health professionals, suppliers and facilities they support for the foreseeable future. The roll out of the NHI is expected to take place over an extended period, and will be constrained by the current fiscal position. In addition, as discussed in more detail below, the Bill remains open to interpretation regarding its impact on medical schemes, and we expect medical schemes to continue operating alongside the NHI. We also think that once fully emerged, the NHI will create additional opportunities for medical schemes to innovate in their products and for the development of new health insurance products outside of the medical scheme environment.

In our view, medical schemes should and will continue to cover all of the healthcare services which they currently cover. We believe this to be the case for the following reasons:

- There is no clear definition of services to be covered by the NHI. Some of the policy makers have suggested that the services will be 'comprehensive' and will not be defined on a benefit by benefit basis, while others have suggested that the services reimbursed by the NHI will be expanded on an incremental benefit and geographic basis, with an initial focus only on primary and maternity care and other high priority services for vulnerable populations. There are contradictions in these positions that need to be resolved since the Bill, in its current form, does not define the services that will be included.
- Even for the limited initial definition of NHI benefits, we expect the actual implementation of universal coverage to be considered and deliberate, as there are extensive financial, legislative and administrative challenges to be overcome, as the Minister and other policy makers have acknowledged. The initial focus, which is likely to last at least until 2026, will be on building the NHI Fund infrastructure and on the substantial work required to change the flows of funds within the current public financing mechanisms.
- There is uncertainty as to when the NHI will be considered "fully implemented". This also needs to be more clearly defined. In our view, given the constraints, it is likely that this point is most likely to be quite far in the future, certainly well after 2026.
- The specific language of the Bill is open to interpretation. Section 33 of the Bill states that medical schemes cannot cover services "reimbursable" by the NHI. At the same time, Section 8 (2) clearly states that to obtain reimbursement, patients will have to follow the 'referral pathway' dictated to them by the NHI's contracted providers. If patients decline to follow these referral pathways, their care will not be reimbursable by the NHI and they will have to either pay out of pocket or will be able to claim from voluntary private health insurance. When these sections are read together, the Bill appears to accommodate medical schemes being able to fund any services that are not reimbursable by the NHI due to patients choosing not to use NHI pathways. This interpretation has been confirmed in recent discussions with senior policy makers.
- We believe that the limitation of the rights of citizens to purchase additional health insurance, even after they have contributed to the NHI, would be globally unprecedented and inappropriate. As noted above, we believe that this approach will actually harm the NHI by draining resources from those most in need. It is also important to point out that no policy maker has yet provided a clear justification for this element of the NHI Bill.
- In virtually every other country with some form of NHI or equivalent nationally funded healthcare system, citizens are fully entitled to purchase additional private health insurance cover, including cover that overlaps with services covered by the national system. A restriction on choice of medical scheme cover is not dissimilar to limiting the rights of citizens to purchase private education for their children or private security, on the basis that the public system already provides state schooling and security services.

### **The financing of the NHI system**

The Bill provides no clear detail of the likely costs of the NHI once fully implemented. A range of numbers have been published. A memorandum attached to the Bill suggests that approximately R30bn in additional funding will be required by 2026 in addition to the current R223 bn spent in the public healthcare system. In other documents, the costs have been estimated at between R70bn-R110bn in 2010 prices. The policy makers have suggested that the National Treasury will soon publish a paper providing more detail on the quantum of funds that may be required and how these will be raised and over what period.

In our view, the government faces significant challenges in securing the funding required to implement the envisaged NHI, including the current and likely future fiscal constraints facing government. In recent days, the media have quoted the National Treasury as requesting Cabinet Ministers to cut public expenditure budgets by up to 19% over the next 3 years, presumably to assist in managing the growing debt to GDP ratio, which poses a threat to our country's credit rating. Consistent with this approach, the Minister of Health has indicated that no tax changes are envisaged over the 3-year period of the current Medium Term Expenditure Framework. Note that any tax legislation falls under the remit of National Treasury and this is acknowledged in the Bill.

The Bill refers to possible use of personal income taxes, a payroll tax and to a redirection of the current medical scheme tax credit. This is obviously possible in theory, but it would harshly affect those towards the lower end of the income spectrum who benefit most from the tax credit. Any adjustments to other government subsidies to medical schemes would be a material change to the employment conditions of public sector employees and would impact their trade unions. It is also worth noting that the Provisional Report of the Health Market Inquiry argued for a restructure of the tax credit to create a greater income cross subsidy, rather than for its abolition.

For these reasons, we expect complex discussions regarding the future role of the medical scheme tax credit. Our broad expectation is that National Treasury will continue to cap the nominal Rand value of the tax credit each year, as has been the case for the past two years.

These observations raise the question of whether the R30bn per annum in new funds to be raised by 2026 is realistic. It is also important to point out that even if this quantum of funds could be raised, much of it will be required for the establishment of the NHI Fund infrastructure as well as to fill many gaps in financing in the current public sector environment, including large numbers of frozen posts and backlogs in infrastructure investment and maintenance. The net result is likely to be a relatively modest budget for purchasing additional healthcare services. If this is correct, the ability of the NHI to substitute for medical schemes will be very constrained in the foreseeable future, and the resulting impact on medical schemes and on private healthcare providers will be similarly constrained.

In summary, there are material challenges to raising new revenues to supplement the current government budget for healthcare, and this is unlikely to change in the foreseeable future. This in turn implies that the rollout of the NHI as envisaged will be constrained unless there is a substantial improvement in the country's economic performance.

### **The role of private hospitals and health professionals**

The Bill envisages that the NHI Fund will contract on a voluntary basis with private hospitals and professionals and other services to supplement the current public sector delivery system. The NHI Bill provides limited detail on how the procurement of services from private providers will be carried out.

The lack of substantial additional funding noted above will constrain the ability of the NHI to procure extensively from private providers. Overall, for the foreseeable future we expect that the NHI will contract with some GPs to supplement its public primary care services, and also that it will contract for certain high priority services to address specific gaps in public sector provision. If this is achieved, it will already be a significant step forward and has the potential to impact very positively on those communities and patient

groups who are targeted for these interventions. Beyond that, we expect that the majority of NHI services will continue to be delivered by public sector clinics and hospitals, and that private hospitals, specialists and other providers will continue to be mainly funded by medical schemes.

It is our strong view that we have a brilliantly committed, highly skilled and world-class healthcare professional community in South Africa. These professionals work hard, provide excellent care and are committed to our country. We believe it is legitimate to defend their rights to choose where and how to work, to fair remuneration, to an optimal working environment that promotes sustainability and ideal patient care, and to retaining and supporting them within our broader healthcare system.

### **The NHI Bill Process**

The NHI Bill will now be tabled in Parliament, implying that a Portfolio Committee process will commence, allowing for public consultation. Discovery will participate actively in the parliamentary process through BUSA and BLSA, as well as the Health Funders Association and on its own account, and we will actively engage with the various organisations representing health professionals during these processes. We encourage all industry stakeholders to do the same.

There will be a parallel process within NEDLAC, which will create further opportunities for engagement and influence over the final content of the Bill.

It also appears that the Minister intends engaging actively with stakeholders and this will create opportunities to engage on these vital issues. There are positive signs that the policy makers are open to the potential for public private partnerships, and we welcome the opportunity to partner in delivering on the vision for a stronger and more accessible healthcare system for all South Africans.

Following the Portfolio Committee process, the Bill will be debated in the National Chamber of Provinces and the National Assembly. We thus do not expect the Bill to be promulgated and regulations drafted for at least 12-18 months from now.

### **Concluding remarks**

The NHI Bill promises the most substantial reform to South African healthcare for decades. It is a large, ambitious and complex reform, and faces many challenges to its successful implementation. As noted above, we are supportive of the need for a dramatic improvement in the access of South Africans to better healthcare and of tackling the inequalities in our healthcare system. However, we have material concerns about some elements of the NHI Bill which need active engagement by all interested stakeholders with the policy makers.

Having said this, we remain confident that the resulting environment will be rational and workable. Our plans for Discovery Health and our relationships with all of our stakeholders remain the same. If anything, the future will be more complex and the need to invest in capabilities and technology are likely to increase substantially. That is what we plan to do.

Discovery is committed to playing its role in building a positive future - for the members of the schemes which we administer, South Africa's doctors and healthcare professionals, and for all South Africans. We will stand by South Africa's health professionals whether they work in the public or private sectors. In doing

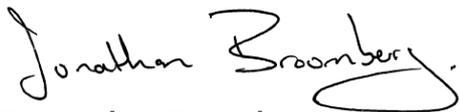
this, our aims will be to ensure that the NHI provides the right platform to leverage health professionals' skills for the benefit of all South Africans, and also that our laws and policies protect the rights of health professionals to choose where and how to work and to be paid for their services including by medical schemes.

We look forward to working with you to realise this aspiration, and at the same time, to manage the risks to private healthcare and the future role of health professionals working in the private sector.

We appeal to all of you, individually and through your organisations, to engage openly and constructively in this debate. Together we believe that we can facilitate a legislative outcome that addresses the current significant inequalities in healthcare in our country, and that enhances health and healthcare for all.

Please feel free to contact me at any time if you would like to discuss these issues in more detail.

Yours sincerely,



**Dr Jonathan Broomberg**

CEO Discovery Health