

Policy uncertainty and its impact on healthcare investment

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Policy certainty is necessary for sustainable investment in a sector. Currently, there is considerable policy uncertainty in the health sector in SA, mainly due to three parallel policy processes - the Health Market inquiry (HMI) Provisional Findings and Recommendations Report, the National Health Insurance (NHI) Bill (the June 2018 version and the expected further version) and the Medical Schemes Amendment Bill (MSAB).



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The combination of these processes has created a shaky environment regarding the future of the private healthcare. The healthcare sector has seen considerable investment growth globally, but South Africa is being left behind as it cannot attract its share of investment against this background of policy uncertainty.

The main issues at the moment are the recommendations made by the HMI in its provision report and recommendations, and provisions set out in the NHI and the MSAB.

HMI recommendations

The Health Market Inquiry (HMI) has been tasked with analysing the private healthcare market in SA to understand whether there are enduring competition problems. This inquiry has been ongoing for the past five years (it commenced during January 2014). The latest date for completion is March 2019. The process has been delayed significantly since inception for various reasons, which also contributed to the uncertain policy environment.

The HMI provisional report makes various recommendations, among them that the market shares of the three listed corporate groups be reduced/ capped at 20%, via either divestiture or moratoriums on new licences. In addition, the report highlights failures in the regulatory framework of medical schemes which has resulted in escalating premiums and contributes to unaffordable medical scheme cover. The report recommends a simplification of medical scheme options and changes to the risk pooling mechanisms which will ultimately bring down the cost of medical scheme cover.

It is unclear whether these provisional recommendations will find their way into the final report to be published in March 2019. However, recent media reports indicate that findings and recommendations of the HMI will be taken into consideration prior to the tabling of the MSAB in Cabinet.

NHI Bill and MSAB

There are two areas of uncertainty for the private healthcare sector in the proposed healthcare legislation. The first of these is the future role of medical schemes in the provision of healthcare services in South Africa. The MSAB grants the registrar power to limit the services provided by medical schemes to those not provided by the NHI Fund to avoid duplicated spending. Although there is not yet any clarity on what services will be provided by the NHI Fund, limiting medical schemes to providing top-up or complementary cover will lead ultimately to beneficiary attrition and reduction in the size of risk pools. This has the effect of increasing premiums necessary to ensure the financial sustainability of schemes, which will mean further attrition in beneficiaries.

It is worth noting that this is contrary to the recommendations of the HMI which points to the "incomplete regulatory environment" in which medical schemes operate and suggests the creating of a risk equalisation fund. Such a fund will address issues of fragmented risk pools. But the MSAB will reduce the overall size of the risk pools, risking further instability and the potential demise of medical insurance.

The second channel is the impact that the NHI will have on private healthcare sector prices. The Bill gazetted on 21 June 2018 indicates that the prices at which the NHI Fund will contract with healthcare providers will be determined by the Benefit Pricing Committee, which is to be appointed by the NHI Fund. In other words, prices will be regulated and determined by the fund. While it is uncertain whether this committee will be included in future versions of the Bill, the fund's ability to determine the payment mechanisms and rates for healthcare services will have significant operational implications for the private sector.

Impact on investors

Important to consider, in addition to the impact of these policy elements on the private healthcare sector, is the implication of compromising a high quality and well-functioning private healthcare sector for investment in the rest of the economy. High quality healthcare is a crucial consideration amongst international investors in deciding where to establish operations. Any perceived threat to the private sector is likely to deter future investment and may cause existing companies to withdraw. Along with issues like land expropriation without compensation, the vulnerable state of Eskom, and issues around the Mining Charter, the NHI ranks as a major concern for foreign investors.

As we understand, Cabinet is set to engage on the NHI Bill on 30 January 2019, the HMI is due to release its final report and recommendations on 29 March 2019, and the MSAB will take account of these findings in any further iterations.

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