

**Health Funders Association**

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**HEALTH FUNDERS**  
ASSOCIATION

29 March 2019

Ms. Hannelie Cornelius  
Accreditation Manager: Administrators and MCOs

**Council for Medical Schemes**

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Dear Ms. Cornelius

**CIRCULAR 6 OF 2019: CLASSIFICATION OF AND REPORTING ON ADMINISTRATION SERVICES – CORE VS SUPPLEMENTARY SERVICES.**

HFA (“the Association”) welcomes the opportunity to respond and provide comments to Circular 6 of 2019 (“the circular”) relating to the classification of and reporting on administration services – core vs supplementary services published on 23 January 2019.

The Association notes the assertion made in the circular regarding the difficulty of regulating and monitoring the medical schemes’ non-healthcare expenditure. Part of the reason for this is premised on the inherent nature of medical schemes and the complexity associated with the operations of schemes and administrators.

The Council for Medical Schemes issued circular 6 proposing a set of interventions, measures and mechanisms in an attempt to allow for comparison of administration fees and the overall monitoring



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of the total cost of administration. The circular attempts to address challenges around administration services and accreditation of administration services. Amongst other things, it proposes a breakdown of administration services as a mechanism to enable CMS to compare costs and fees between various administrators and schemes. The proposed breakdown does not address any of the challenges regarding comparability noted in the circular and does not appear to appreciate the basic drivers and influencers inherent in the running of medical schemes and services offered by administrators. This has far reaching challenges with regards to breaches to governance and legislation.

Below is an outline of some of the concerns emanating from the circular that the Association deems critical to the sustainable functioning of its members' organisations (i.e. schemes and administrators).

### 1. Regulatory and legislative compliance

The circular refers to "administration services" and further goes on to define and list these. This raises a serious concern as the term "administration services" is currently not defined in the Medical Schemes Act ("Act"). Defining these services via circular gives the impression that the CMS is regulating by circular and not conforming to legislative and regulatory statutes. The Act states that only accredited administrators can provide administration services but does not define what these are.

Furthermore, the circular goes in direct contravention of the Act by introducing and encouraging schemes to contract with non-accredited entities in the procurement of certain administration services.

### 2. Comparability and value derived from administration services

The circular incorrectly points to the fact that administration services are currently not broken down for disclosure purposes as such a provision was already included in Circular 48 of 2014. We acknowledge the intricacy associated with medical schemes' and administrators' structures, however, there is lack of appreciation of the value of administration services that these entities render to members. The policy proposals and interventions would effectively undermine and reduce the value that schemes, and administrators deliver to their members. The requirement to break down administration services into "core" and "supplementary" services to enable better comparability of fees and costs between schemes and administrators does not allow for varying levels and types of service offered by different administrators as well as the varying sizes of schemes and other factors that make it impossible to effectively compare administration fees and costs across these entities by looking at price alone. This incomparability is acknowledged in the circular, but the proposed framework does not address this in any way.

### 3. Price and contracting value

It appears that the emphasis of the interventions is on price as opposed to considering the value that is being delivered. Price is only one component of value. If the focus is only on price, then administrators will be forced to take a more short-term approach to their service offering and have reduced confidence in having a long-term sustainable relationship with the scheme. Administrators will thus have less of an appetite to engage in long term investment in their infrastructure and in rolling out of new innovative systems and servicing model which will erode the value to members and



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even lead to increased claim costs. We therefore encourage a value-based contracting approach which considers the impacts of contracts on the value delivered to members in terms of quality of care and total cost of cover. The CMS should consider providing support to Trustees by developing a set of guidelines that Trustees can utilise to assess value that may be applied across the entire industry.

#### 4. Scheme's Board of Trustees

It is a key role of the Board of Trustees and a fiduciary responsibility to ensure the proper running of the schemes they serve on; using their competencies and knowledge of the business of medical schemes. As such Trustees should be empowered to determine the contracting value of these entities. The role of the CMS is to provide support to Trustees to ensure that they exercise their fiduciary duties and not to exercise their duties on their behalf. We encourage the CMS to engage with schemes to gain a better understanding on how their Trustees extract value out of their contracting activities. This is consistent with the Health Market Inquiry ("HMI") provisional report that encourages strengthening of governance across the industry.

#### 5. Core vs Supplementary Services and non-accredited suppliers

The circular has categorised administration services into "core" and "supplementary". This new categorisation is impractical given the vast differences in scheme structures and services rendered. Furthermore, the circular proposes that entities providing one or more "supplementary" administration services to schemes do not have to be accredited. The introduction of the definition of administration services means that this provision is in contravention of the current requirements set out in the Act.

#### 6. Accounting standard – International Financial Reporting Standard ("IFRS")

IFRS 15 is inappropriately used for justifying the requirement for the breakdown of administration services. The standard provides guidelines on reporting on contracts as opposed to giving instructions on how contracts should be constructed (as is the case in the circular).

#### 7. Self-administered schemes

Self-administered schemes will not report specifically on "administration fees" as the services are rendered in-house. It is therefore not clear in the circular how the requirement for disclosure of the breakdown of services will apply to self-administered schemes.

#### Conclusion

HFA recognises the authority of the CMS of exercising regulatory oversight of the health funding industry. Taking a simplistic approach of introducing major requirements as contained in Circular 6 services to address the comparability challenges experienced by CMS poses far reaching regulatory compliance risks for schemes and administrators.

HFA wishes to caution against the introduction of interventions that focus solely on the cost of administration services without considering the total output from a value point of view more especially the value delivered to the scheme members. HFA encourages a consultative approach to



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addressing the challenges noted in the circular and to providing support that strengthens scheme governance.

Your sincerely

A handwritten signature in black ink, appearing to read 'Lerato Mosiah', written over a light blue rectangular background.

**LERATO MOSIAH**  
CEO

CC: Mr. Teddy Mosomothane via e-mail

HFA

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