



# South African Private Health Insurance

**“Leading the way to consumer driven health care”**

**Hylton Kallner**

**March 2002**

# Agenda

- **The South African healthcare system**
- **Before a consumer driven approach**
- **Consumer driven product evolution**
- **Results**

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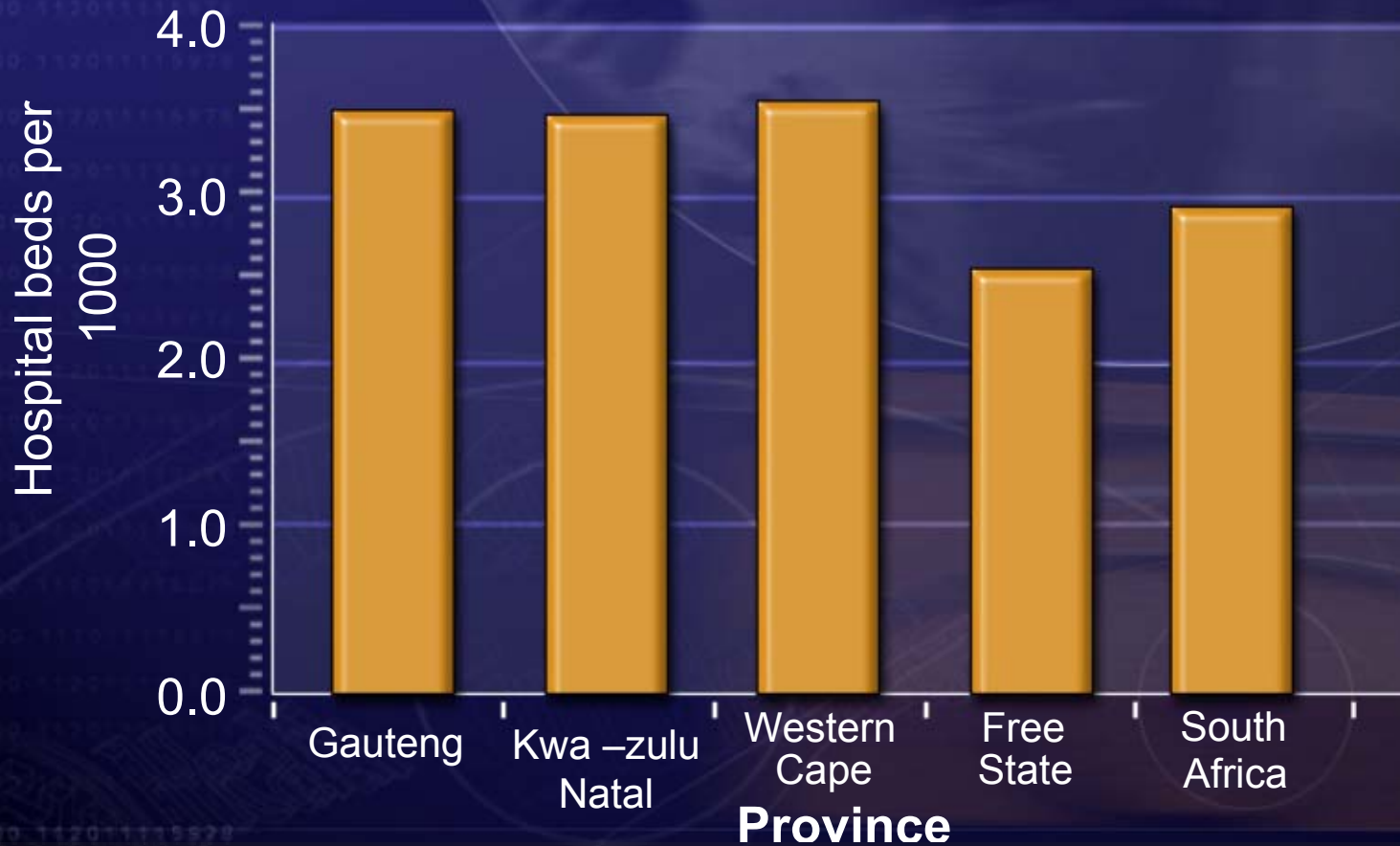


# South African Healthcare System

**Public Sector  
33 Million People**



# Public Sector Delivery



**Government Funded – Focus on Primary Care**

# South African Healthcare System

**Private Sector  
7.5 Million People**

**Public Sector  
33 Million People**



**Focus on the Private Sector**



# Traditional Plan Benefit Structure

<b>Private Healthcare Spending</b>	<b>% of GDP</b>
<b>USA</b>	<b>7.5%</b>
<b>South Africa</b>	<b>4.3%</b>
<b>Canada</b>	<b>2.9%</b>
<b>Germany</b>	<b>2.4%</b>
<b>China</b>	<b>1.8%</b>
<b>Japan</b>	<b>1.6%</b>
<b>United Kingdom</b>	<b>1.0%</b>

# South African Private Sector

	South Africa	Illinois
Insured population	7.5 million	8.2 million
Hospital beds	21,000	39,165
Physicians	13,500	23,238
Nurses	40,000	102,182

# A Universally Cost-Efficient System

## Healthcare vs Cars





# A Universally Cost-Efficient System

## Healthcare vs Cars



# World-class Private Healthcare System

- Outstanding access to advanced technology
- Highly qualified medical professionals
- Cost-effective system

# World-class Private Healthcare System

- **Outstanding access to advanced technology**
- **Highly qualified medical professionals**
- **Cost-effective system**

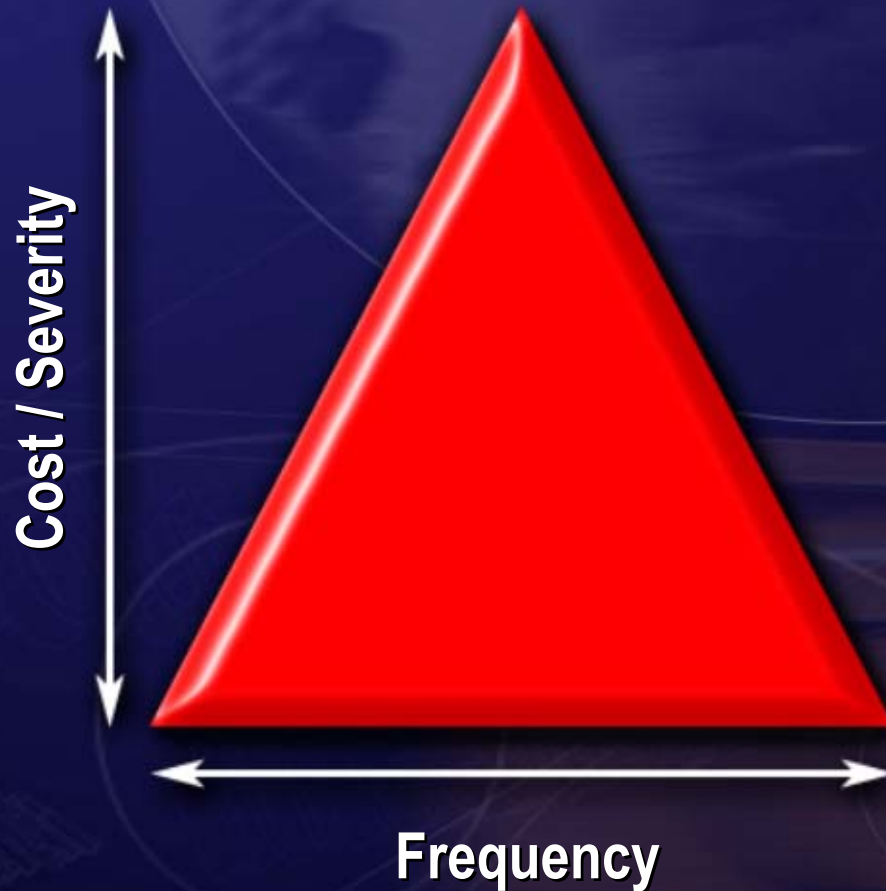
	SA	US	UK
C-section	\$ 1,400	\$ 9,000	\$ 6,000
Hip Replacement	\$ 5,800	\$ 36,000	\$ 17,000
Knee Replacement	\$ 5,300	\$ 32,000	\$ 18,000



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# The Triangle of Healthcare Needs



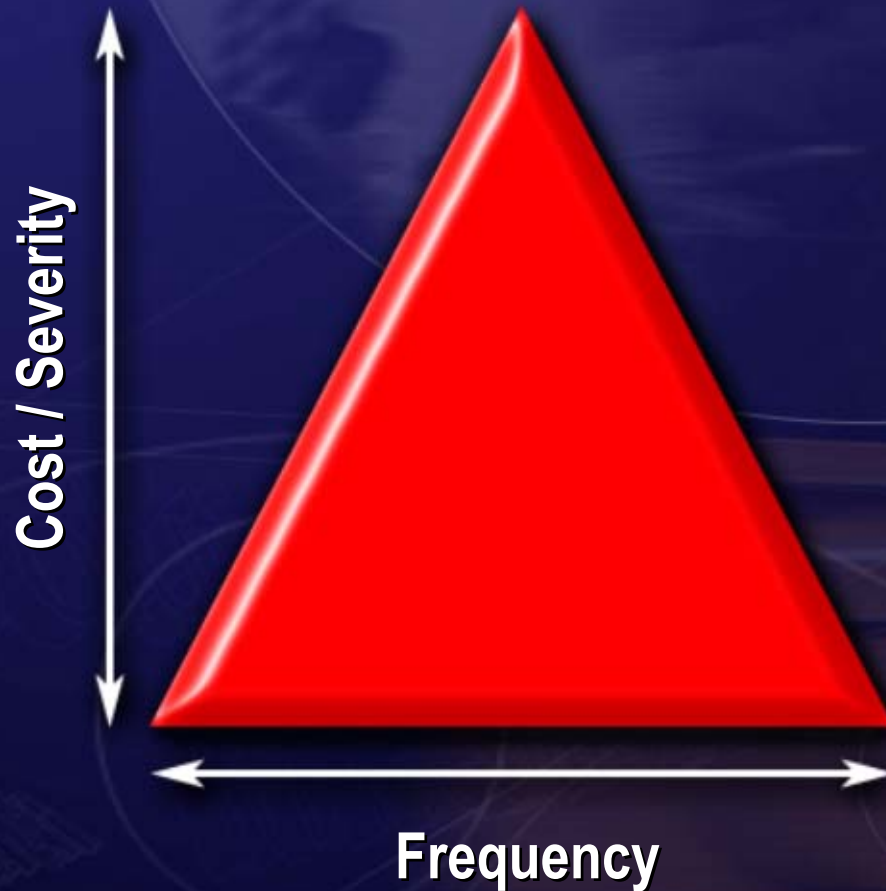
# Traditional Plan Benefit Structure

Healthcare service	Annual limits for family of 3
Hospital benefits	\$50,000
Chronic illness benefit	\$1,000, 45 illnesses covered
GP	12 visits per person, \$5 levy
Specialists	12 visits per person, \$7 levy
Prescribed medication	\$500
Optical benefits	\$100 per person
Dental benefits	Conservative: unlimited, Specialised: \$500 per person

**Use it or Lose it Mentality – Gaps in Coverage**



# The Triangle of Healthcare Needs

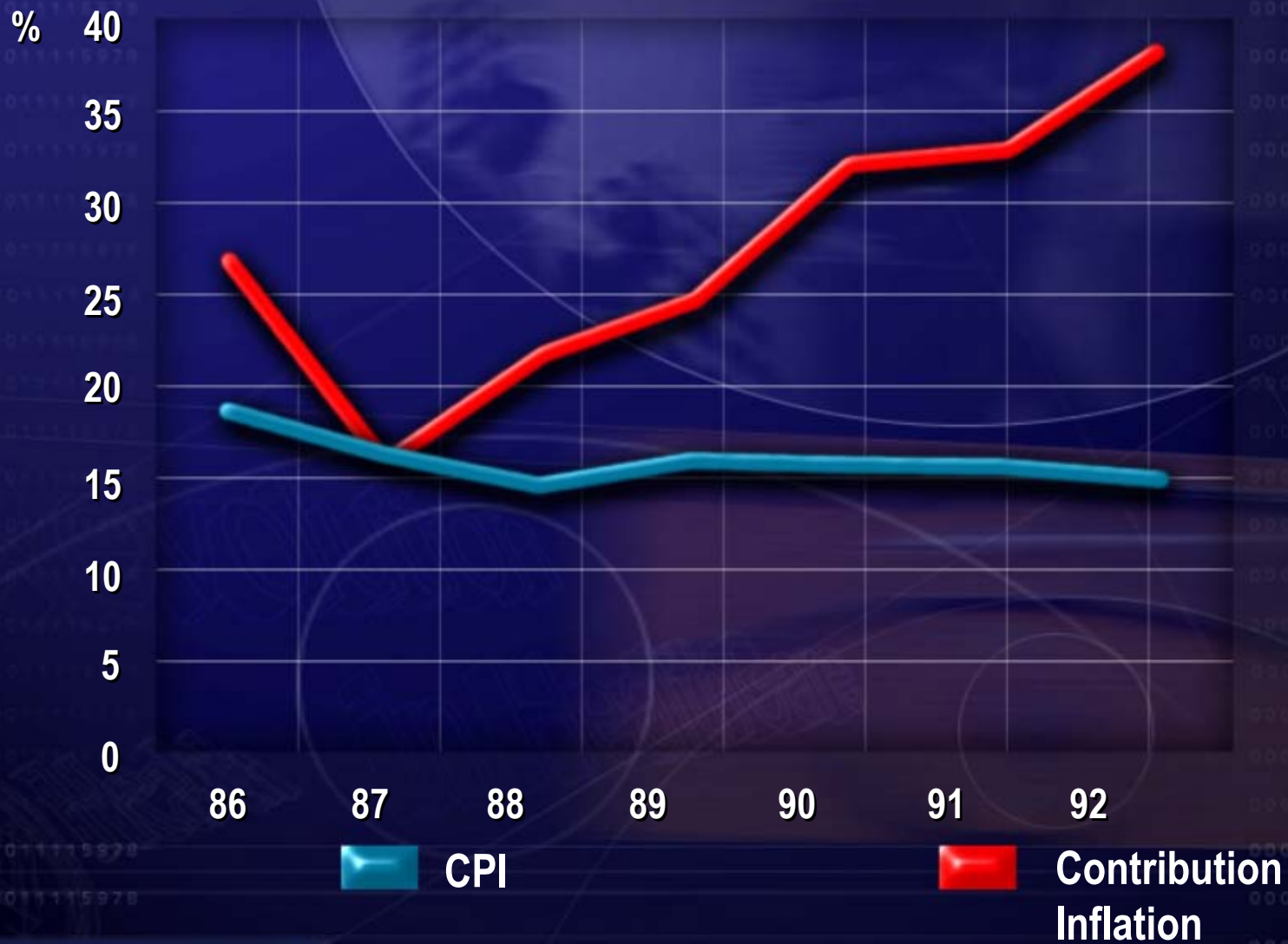


# The Triangle of Healthcare Needs

Typical health insurance



# Inflationary Effect





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**Cost / Severity**

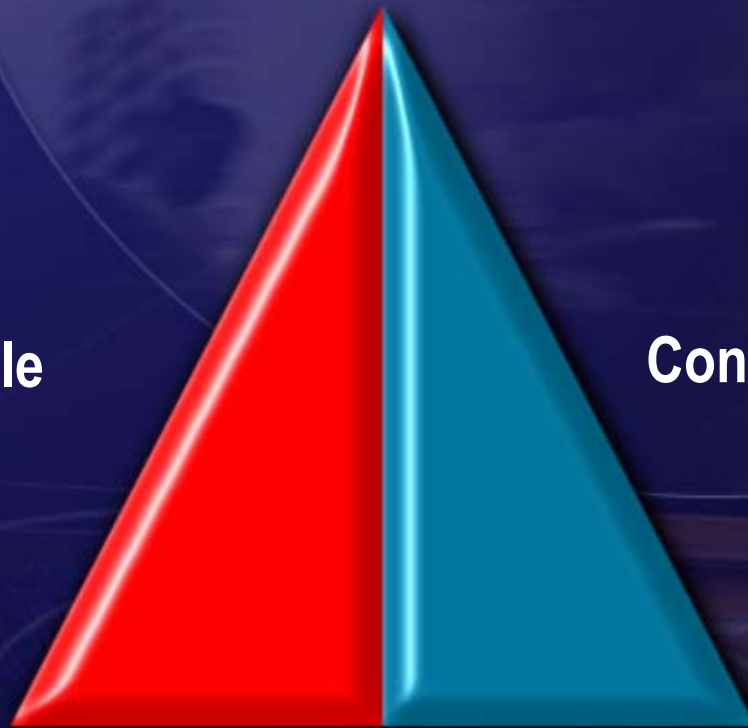


**Frequency**

**Uncontrollable**



**Uncontrollable**



**Controllable**



**Clinical Care**



**Personal Care**

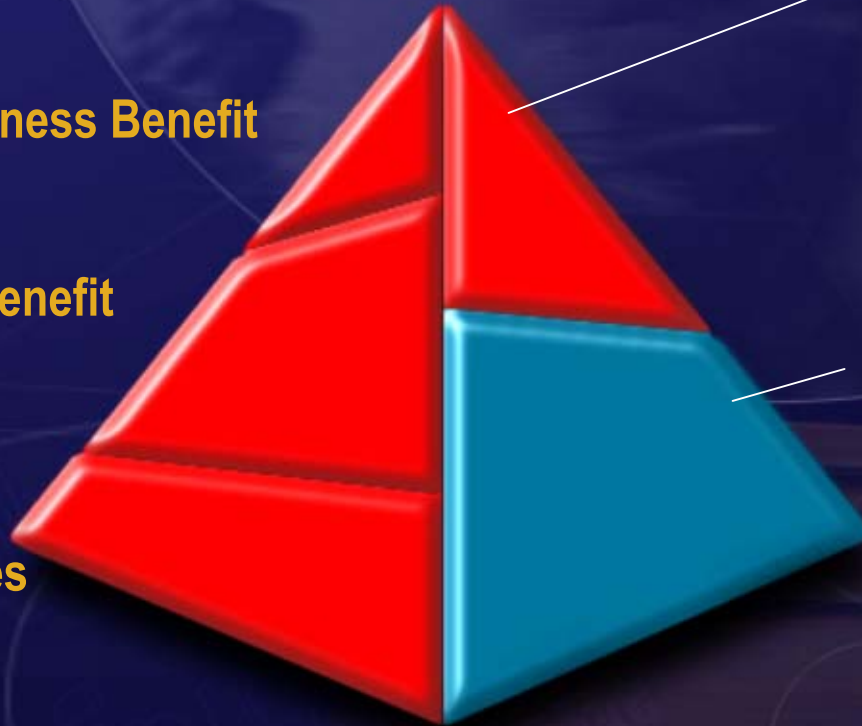


# Consumer Driven Healthcare Model

**Chronic Illness Benefit**

**Hospital Benefit**

**Insured  
Procedures**



**Out-of-hospital safety net**

- For high, ongoing day-to-day expenses
- Largely unlimited

**Medical Savings Account**

- Member selects annual deposit up-front
- Member discretion for day-to-day costs
- Use it or save it

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# 1. Efficient allocation of spend

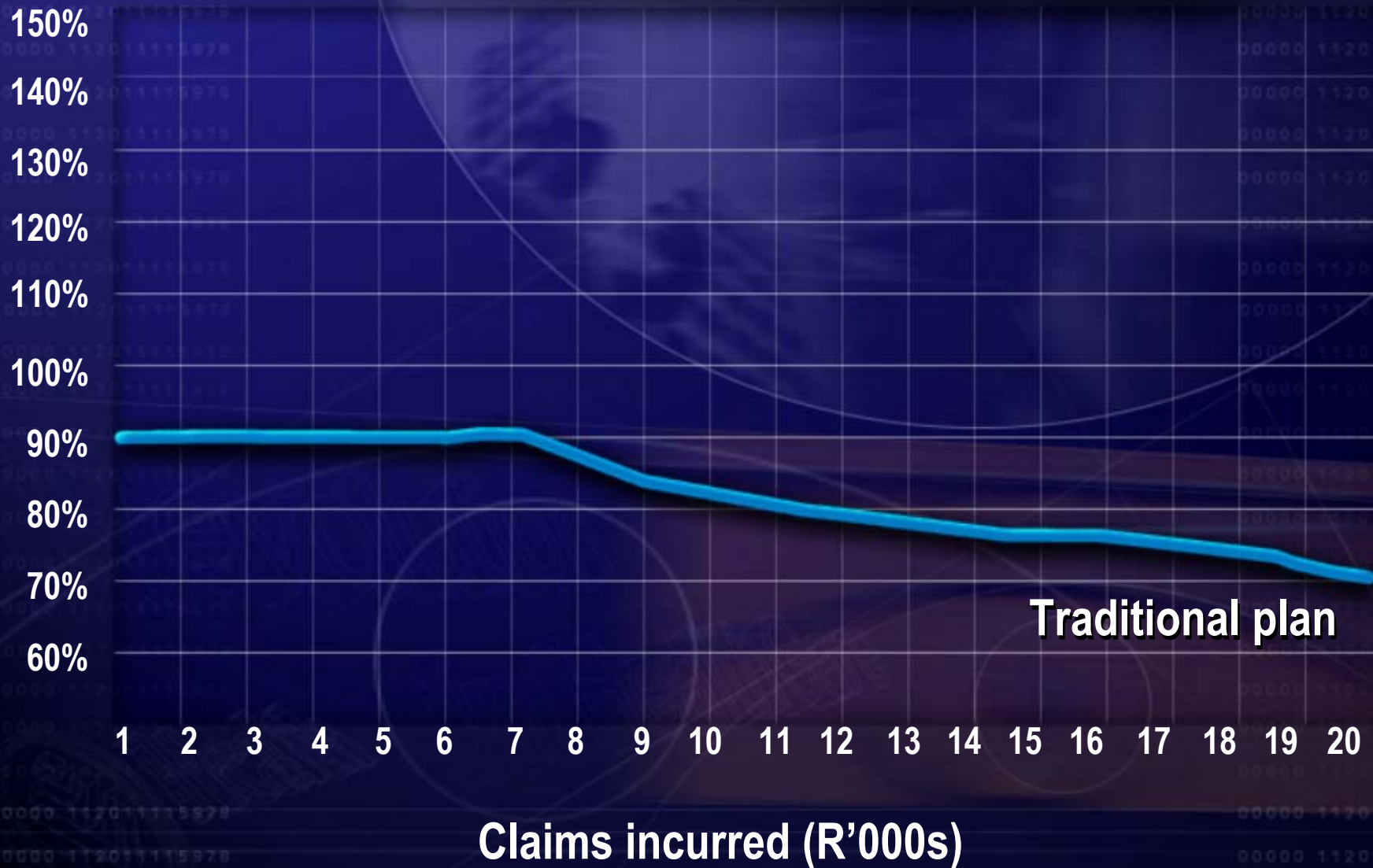
# MSA Analysis

- Analyse actual claims experience of three carriers for 1997 calendar year
- Categorise data according to:
  - Hospital claims
  - Chronic medication claims
  - Out-of-hospital claims
  - Stratified by age bands
  - Medium and large groups only

# Outcomes Measured

- **Are MSAs attractive to the healthy and sick?**
- **Are MSAs attractive to the young and old?**
- **Do MSAs encourage cost-shifting to other risk pools?**
- **Do MSAs result in more catastrophic claims?**

# Out-of-Hospital Analysis

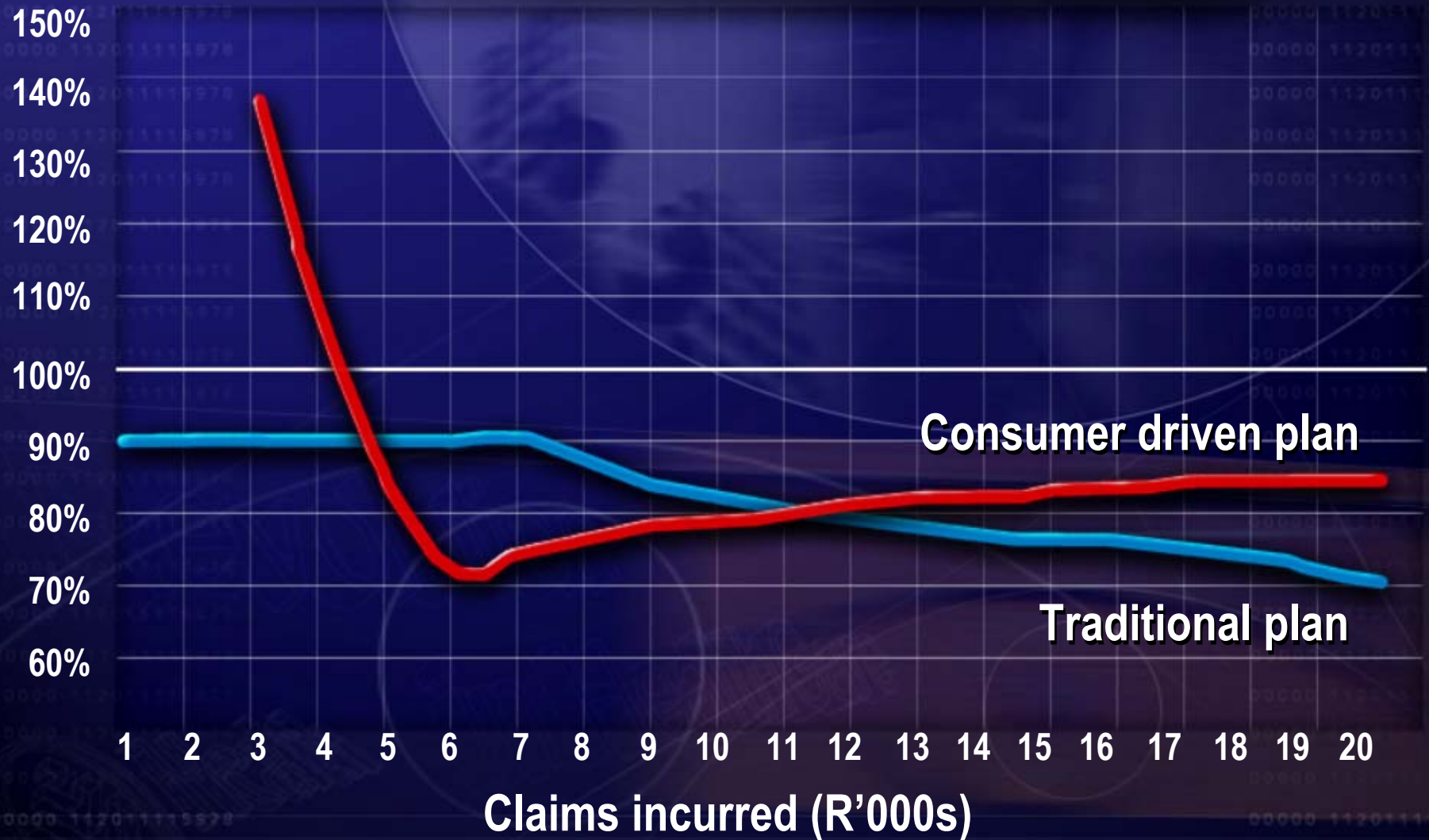




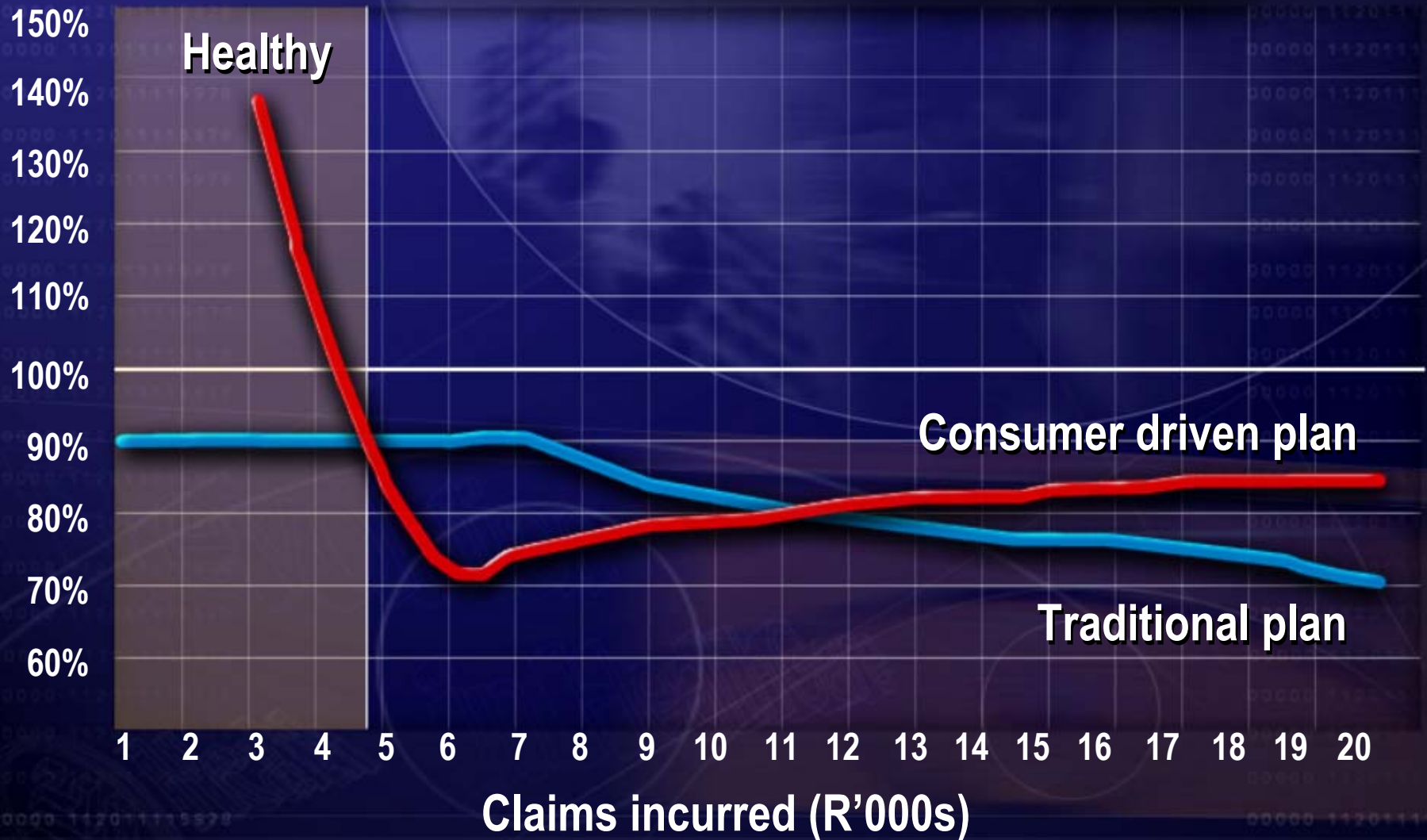
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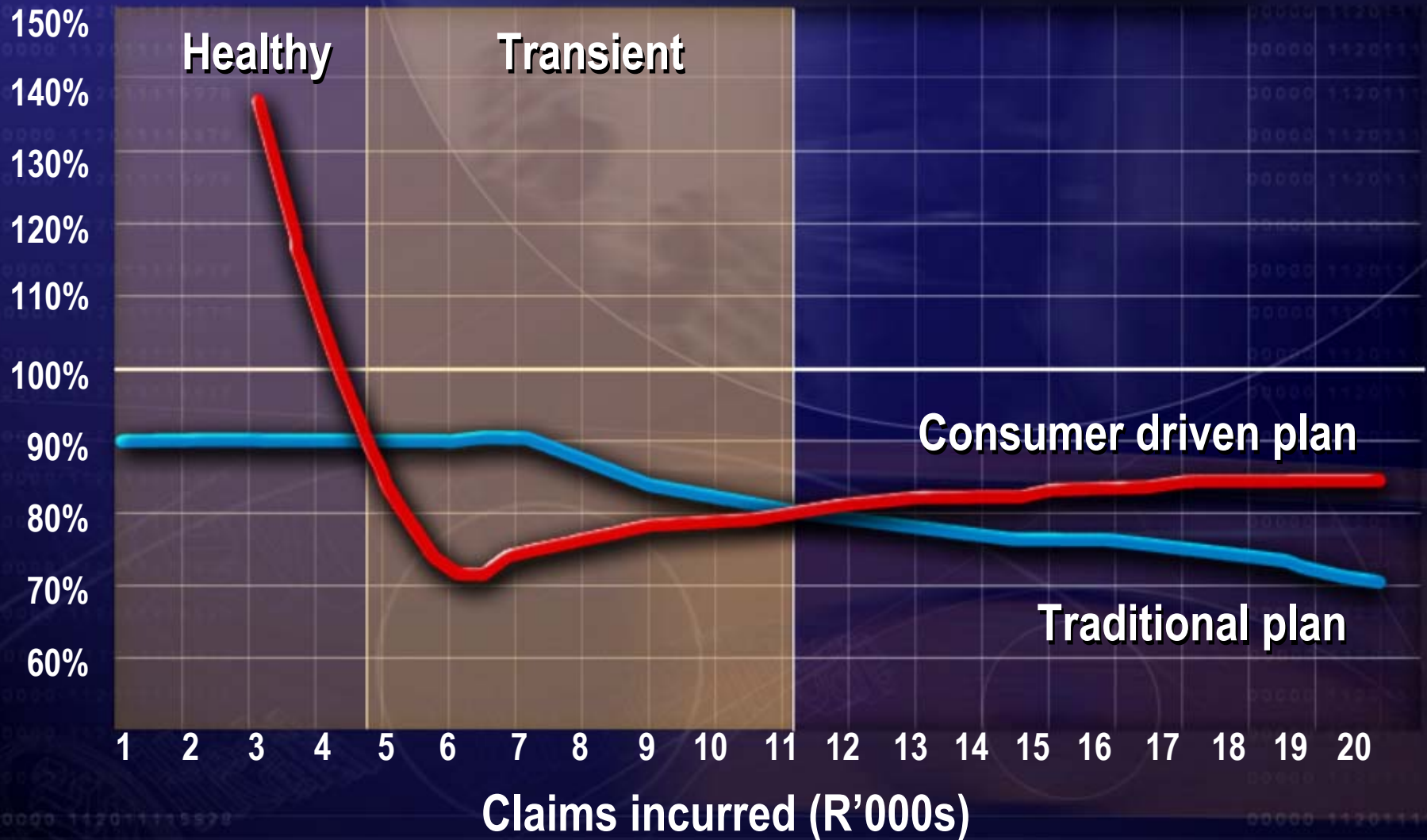


# Out-of-Hospital Analysis



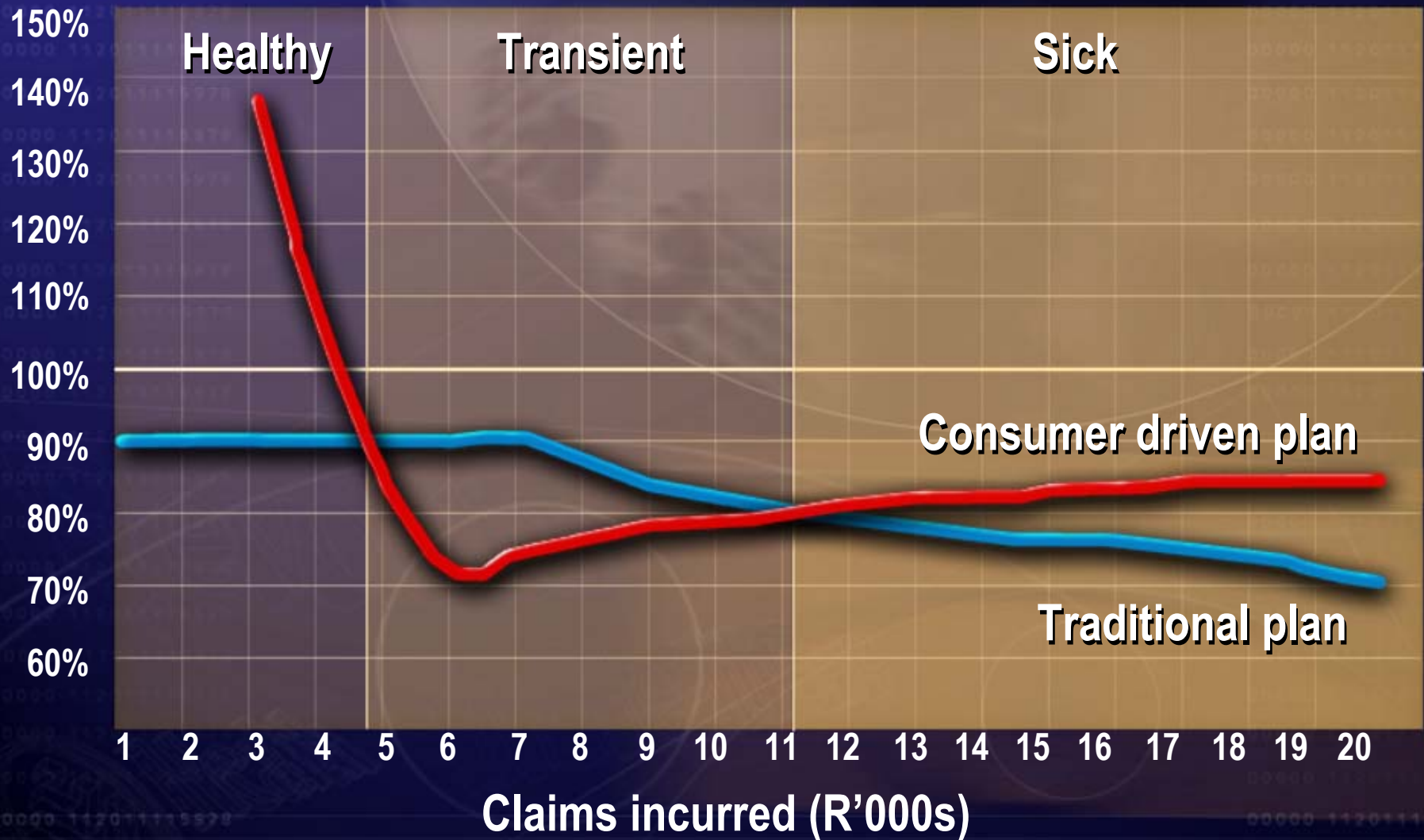


# Out-of-Hospital Analysis





# Out-of-Hospital Analysis



# Out-of-Hospital Analysis

## Average out-of-hospital cost per member

Age band	Non-MSA	MSA
20-35	R 6,044	R 3,368
36-50	R 9,178	R 4,704
51-65	R 10,299	R 5,294
66+	R 13,668	R 6,365

# Out-of-Hospital Analysis

**MSAs provide:**

- **more comprehensive benefits to healthy & sick**
- **for equal total contributions**
- **at all ages**

**Cross-subsidies Maintained-potentially  
more Efficient use of Healthcare Spend**

# Out-of-Hospital Analysis

Incidence of hospitalisation		
Age band	Non-MSA	MSA
20-35	40%	34%
36-50	37%	35%
51-65	40%	33%
66+	42%	46%

No Evidence of Cost-shifting



# Outcomes Measured

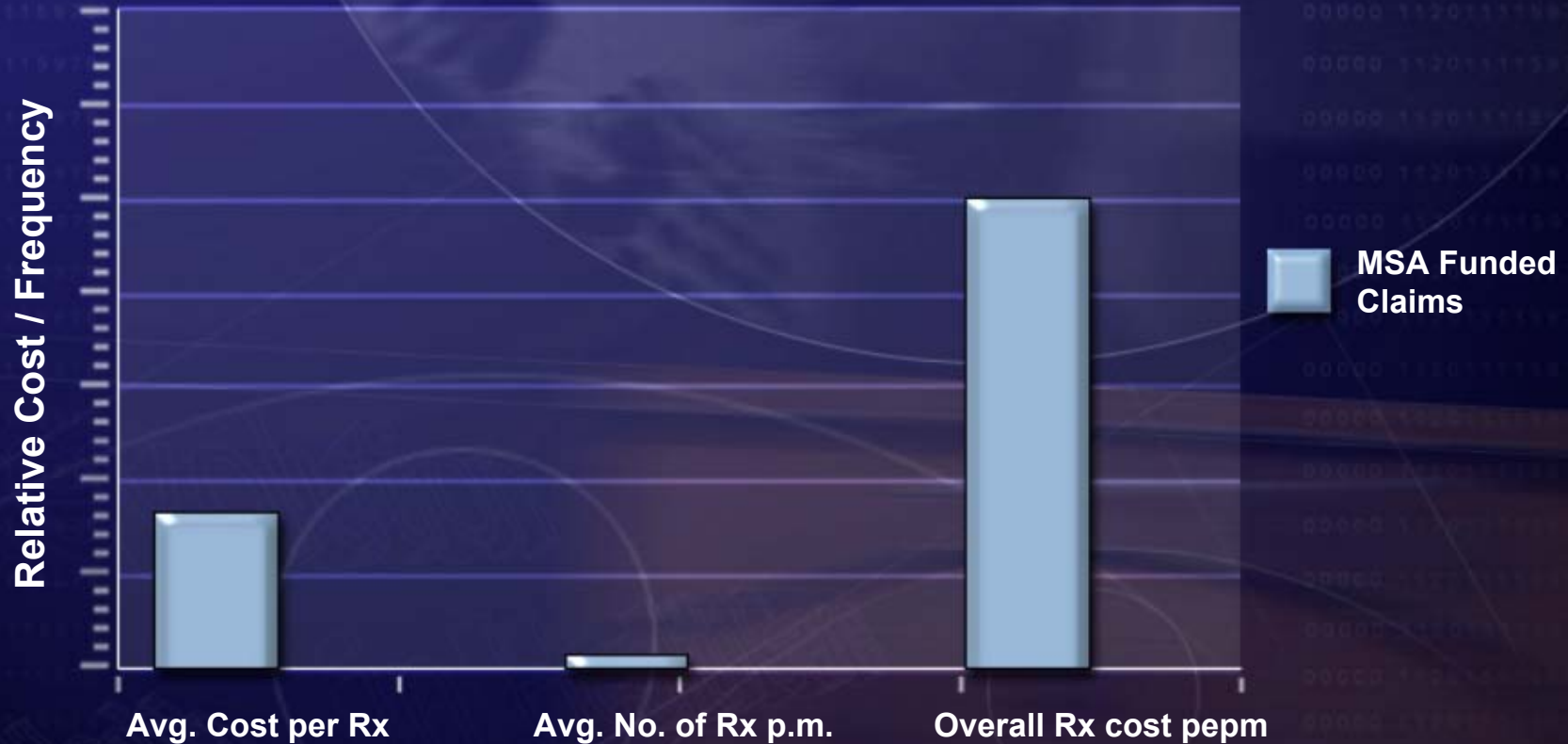
- Are MSAs attractive to the healthy and sick?
- Are MSAs attractive to the young and old?
- Do MSAs encourage cost-shifting to other risk pools?
- Do MSAs result in more catastrophic claims?



## 2. Positive behavioral changes

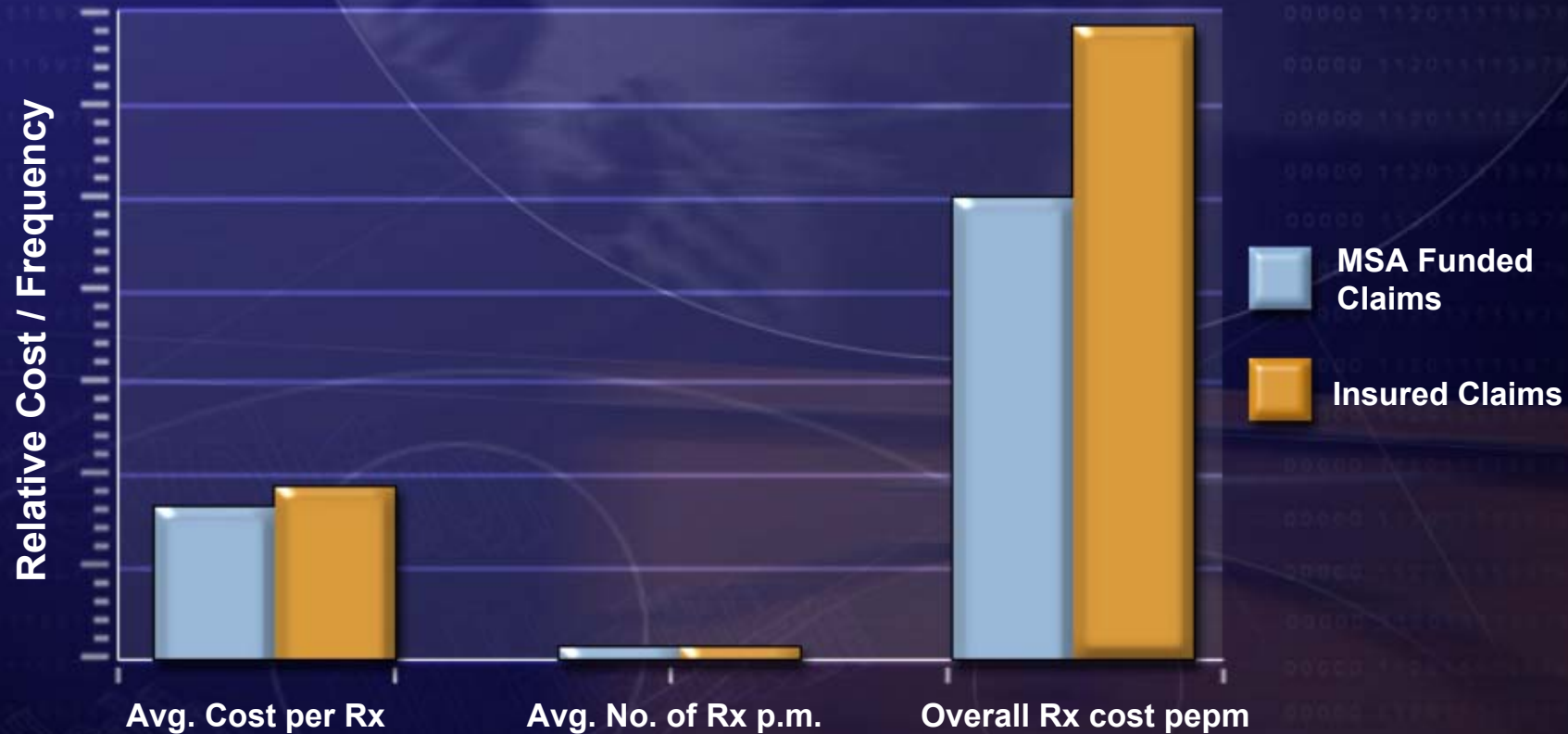
# Behavioral Changes Achieved

## Non-Chronic Prescription Drug Costs



# Behavioral Changes Achieved

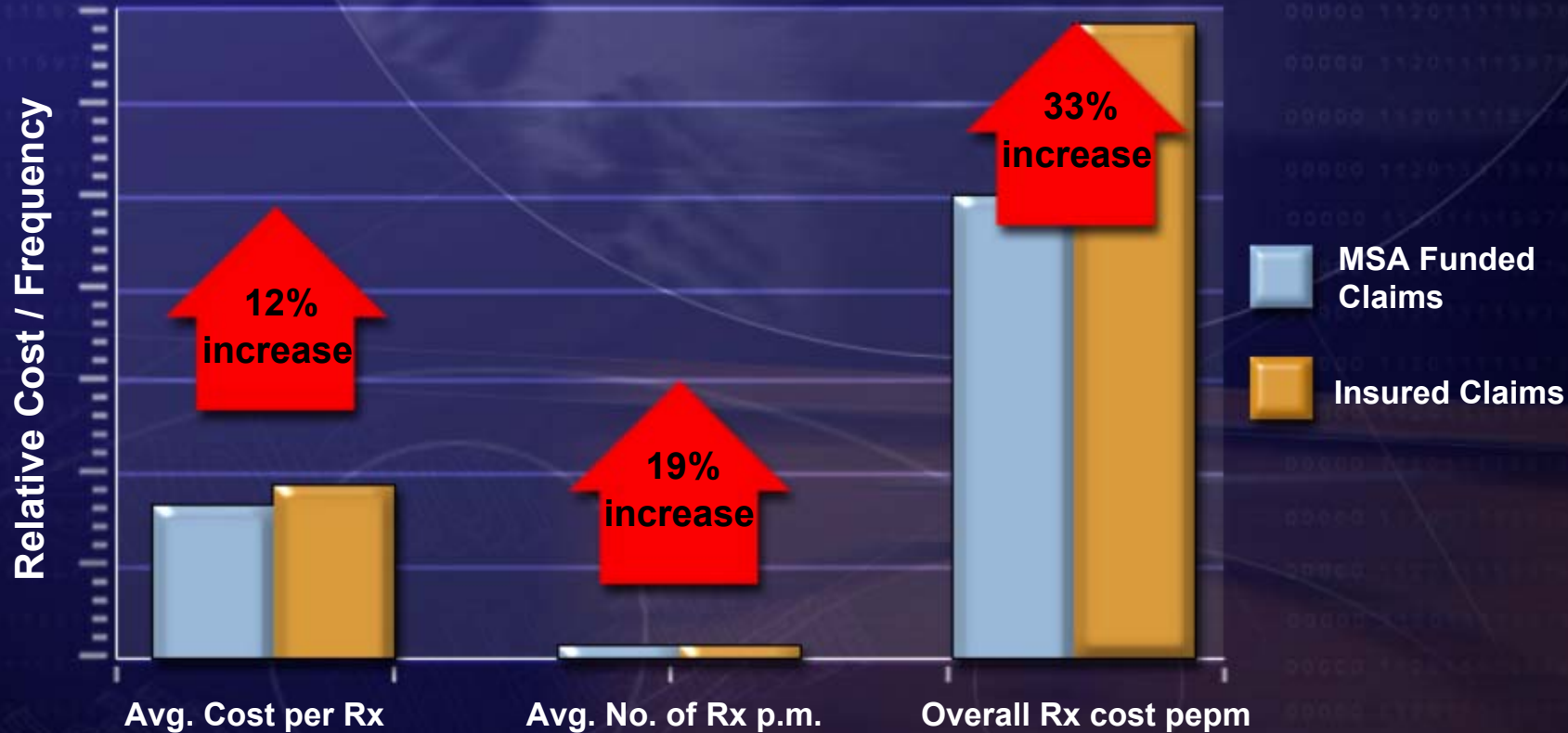
## Non-Chronic Prescription Drug Costs





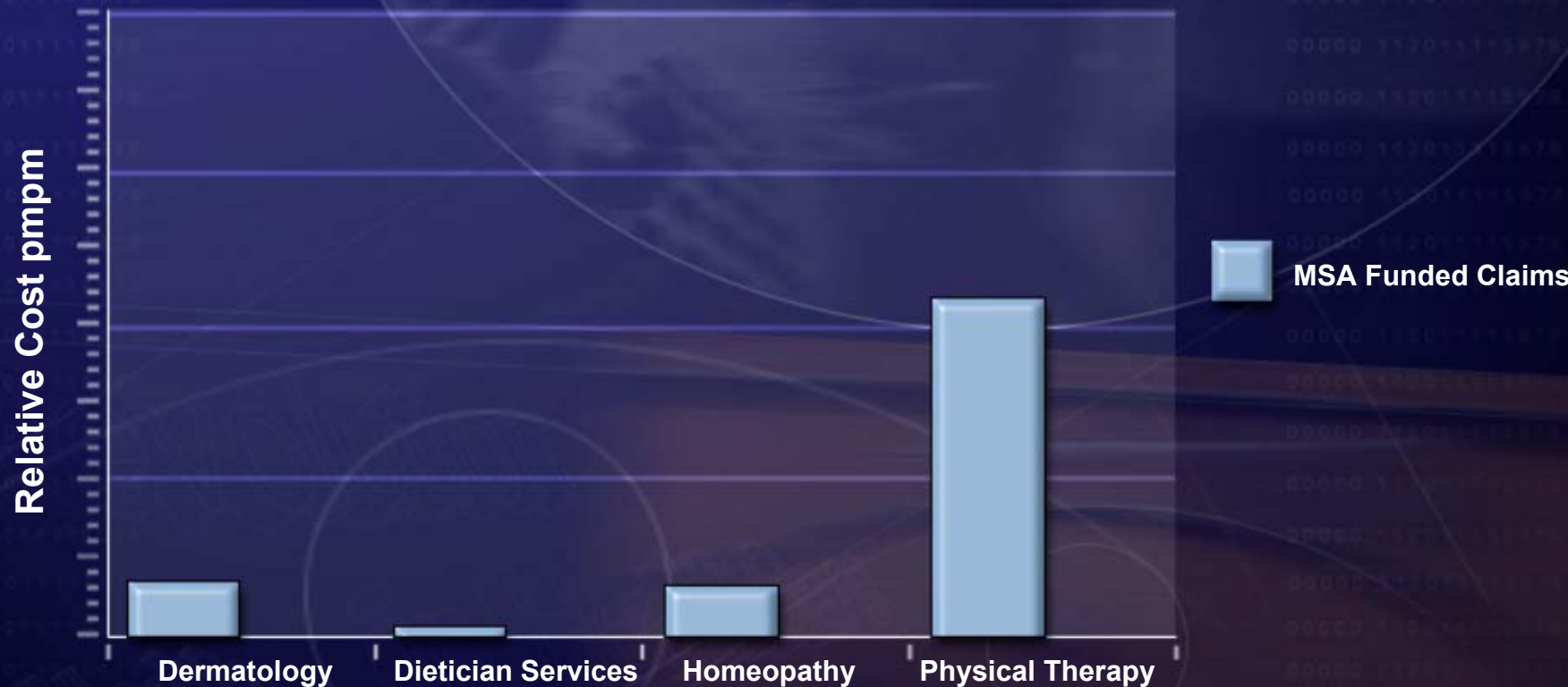
# Behavioral Changes Achieved

## Non-Chronic Prescription Drug Costs

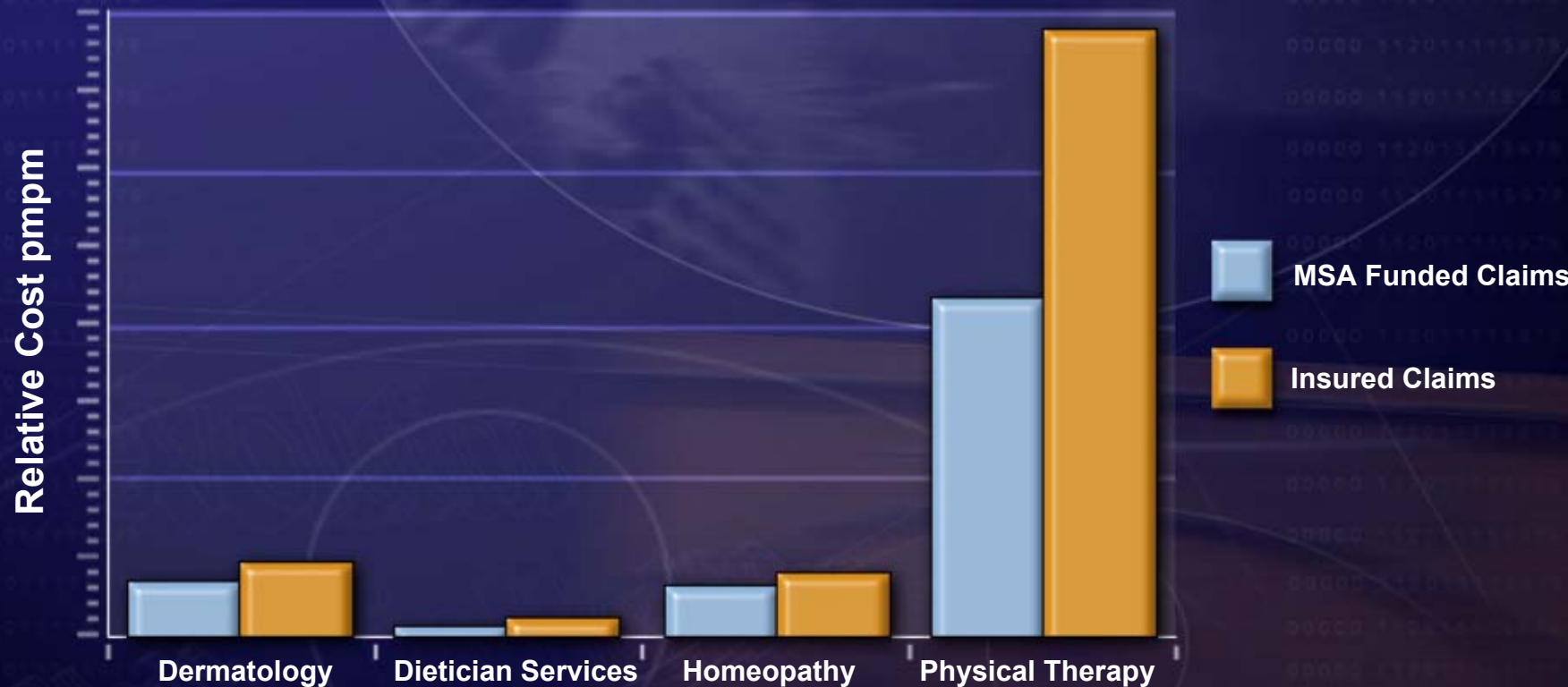


**One-third drug cost increase when insured**

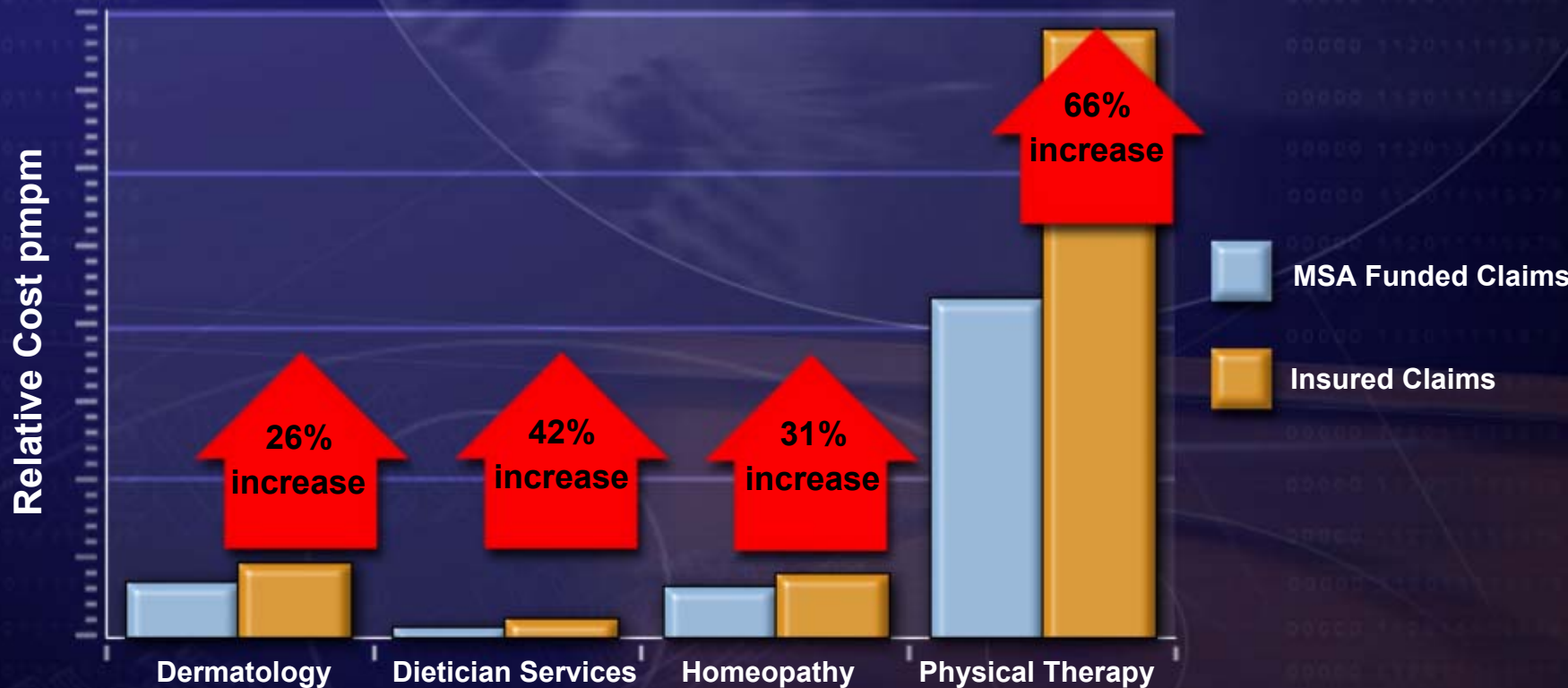
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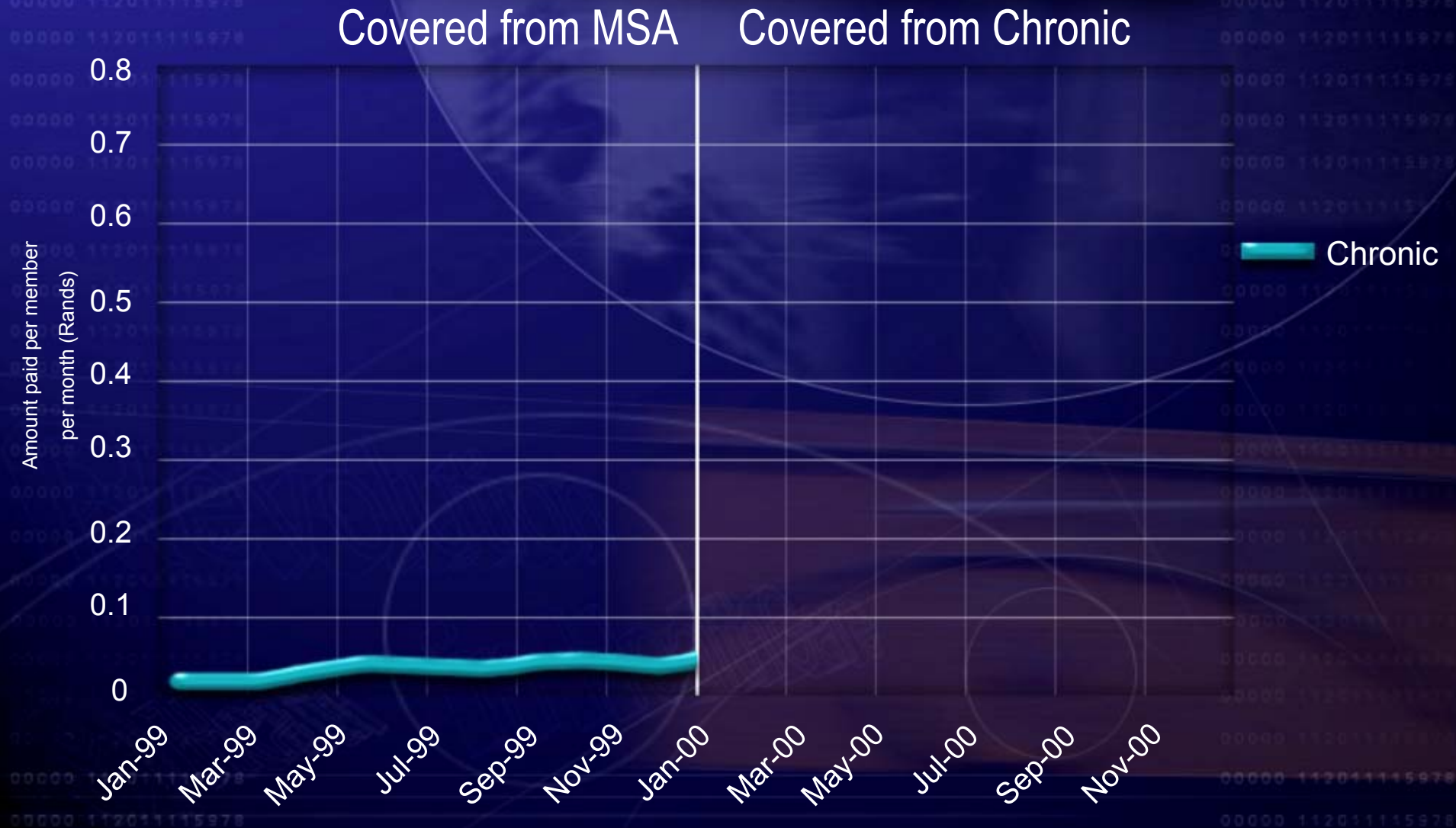
# Behavioral Changes Achieved



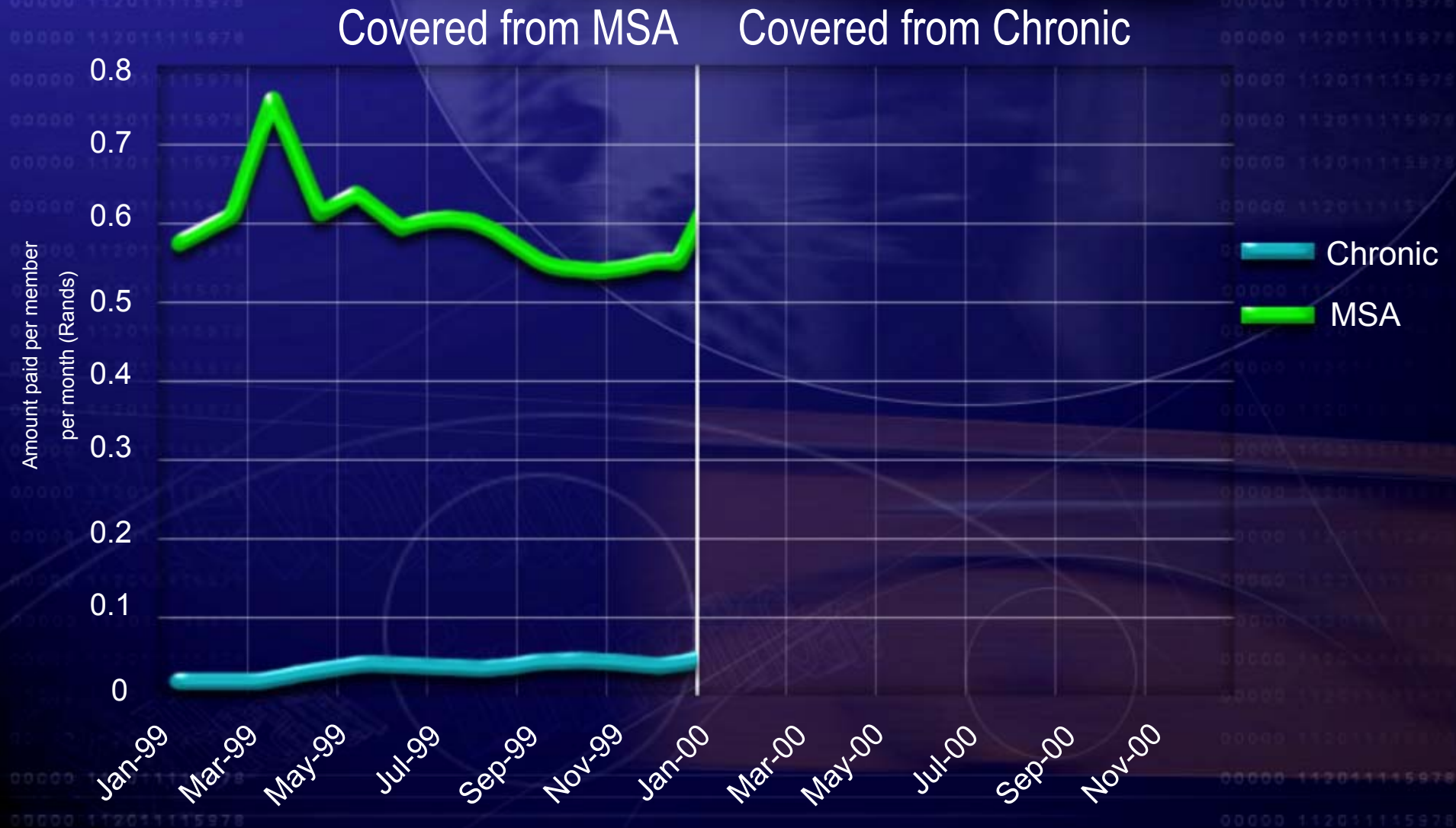
**26% to 66% Cost Increase when Insured**



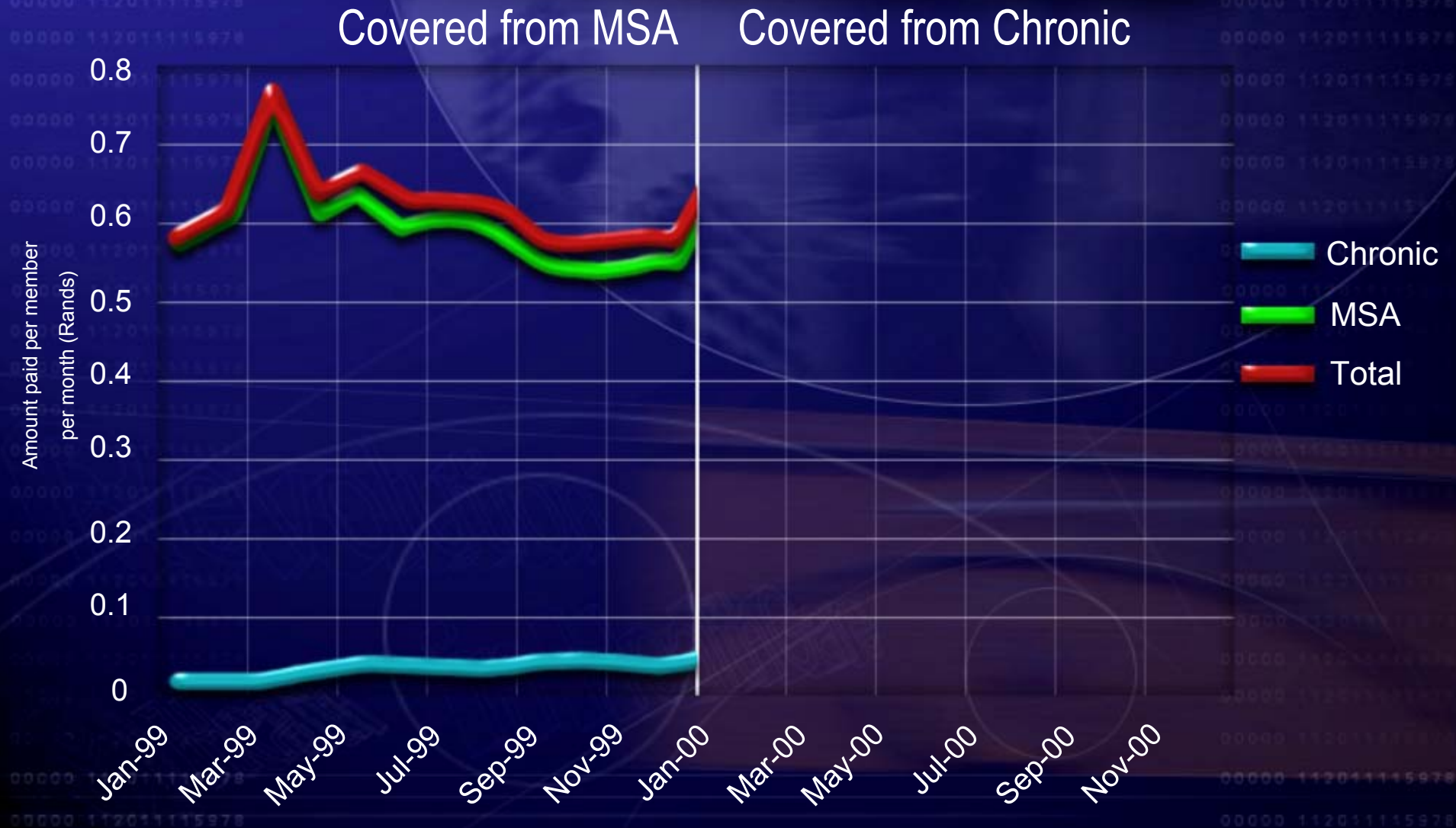
# Impact of Preventive Care



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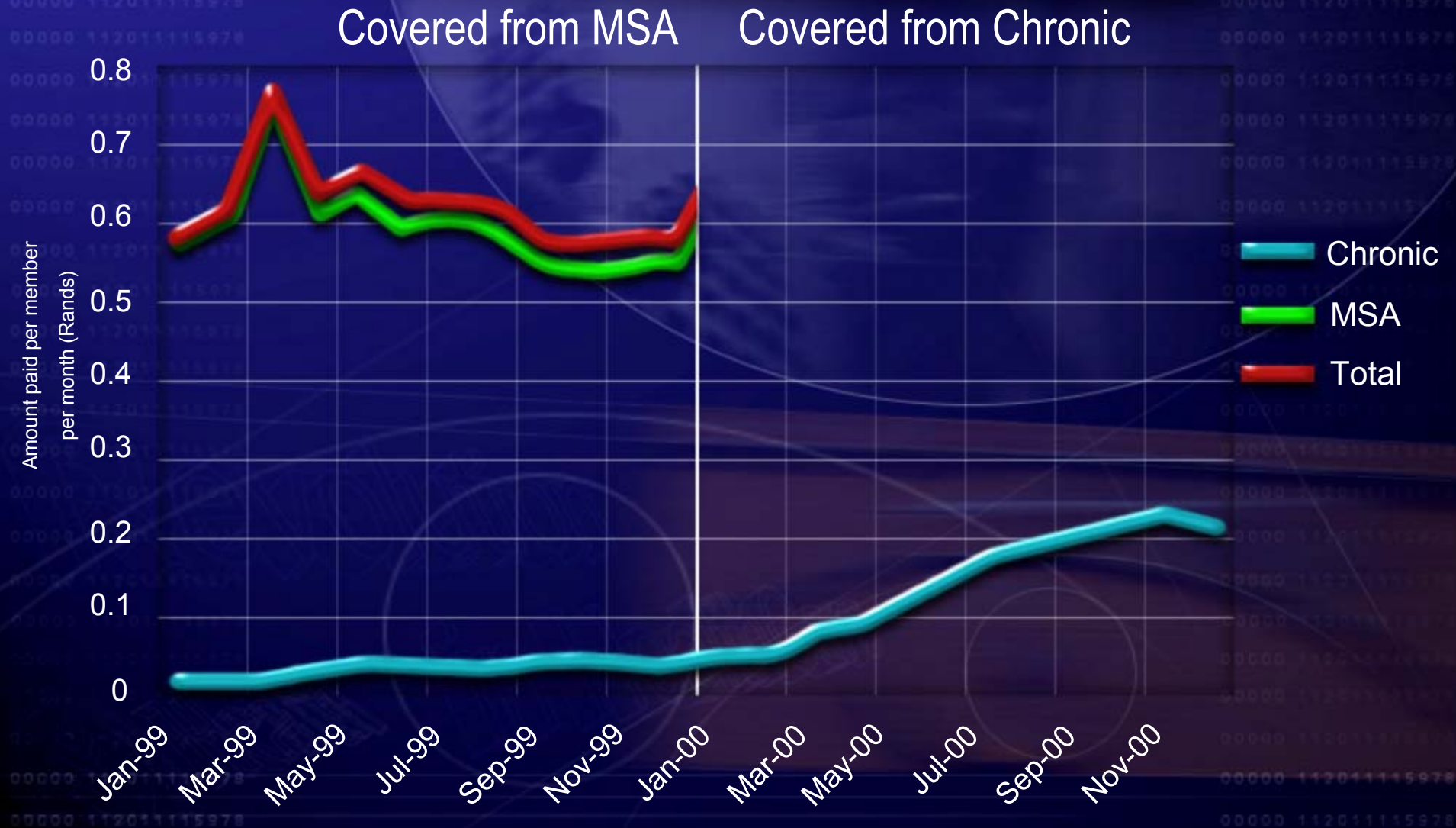


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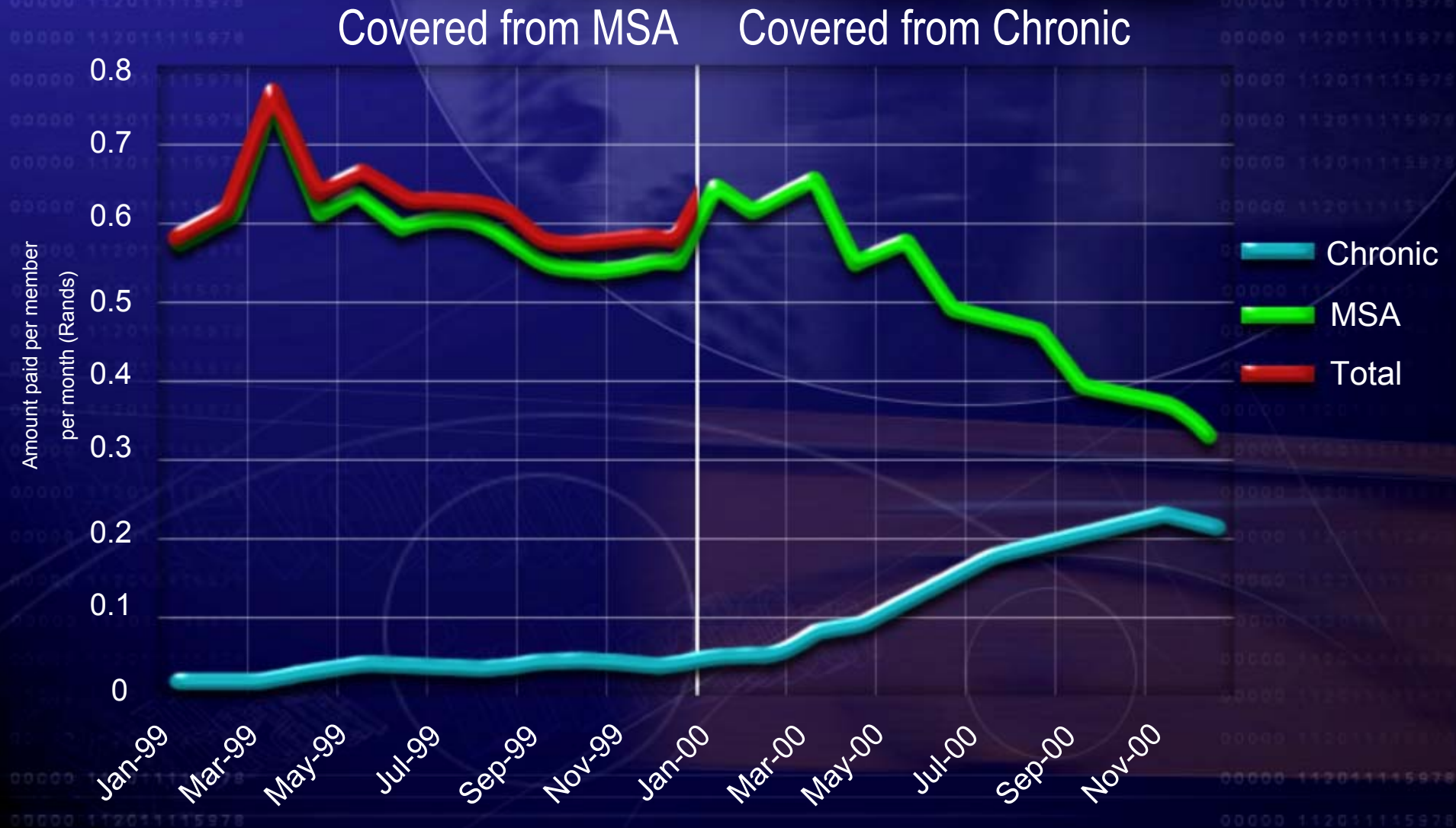


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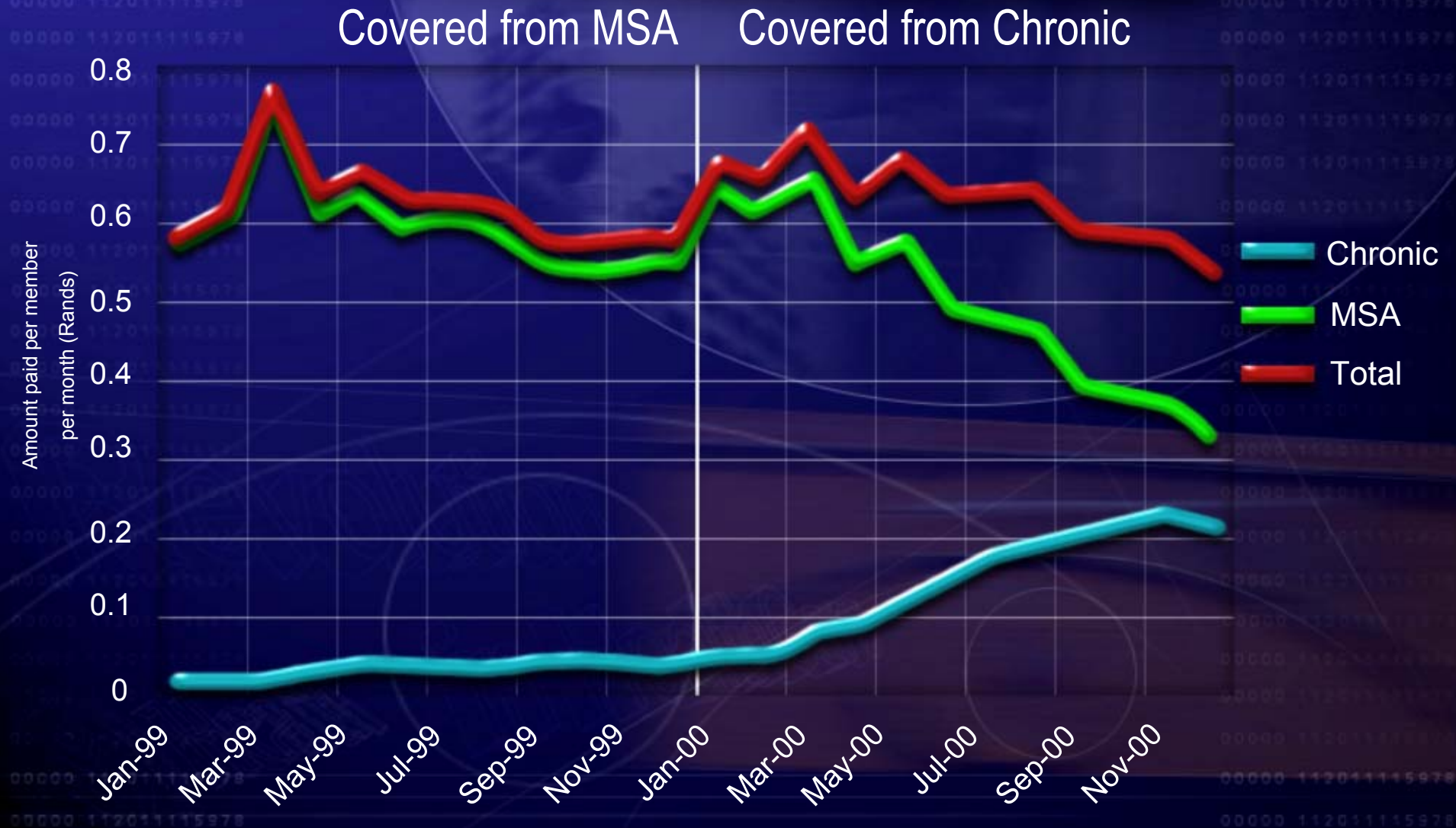




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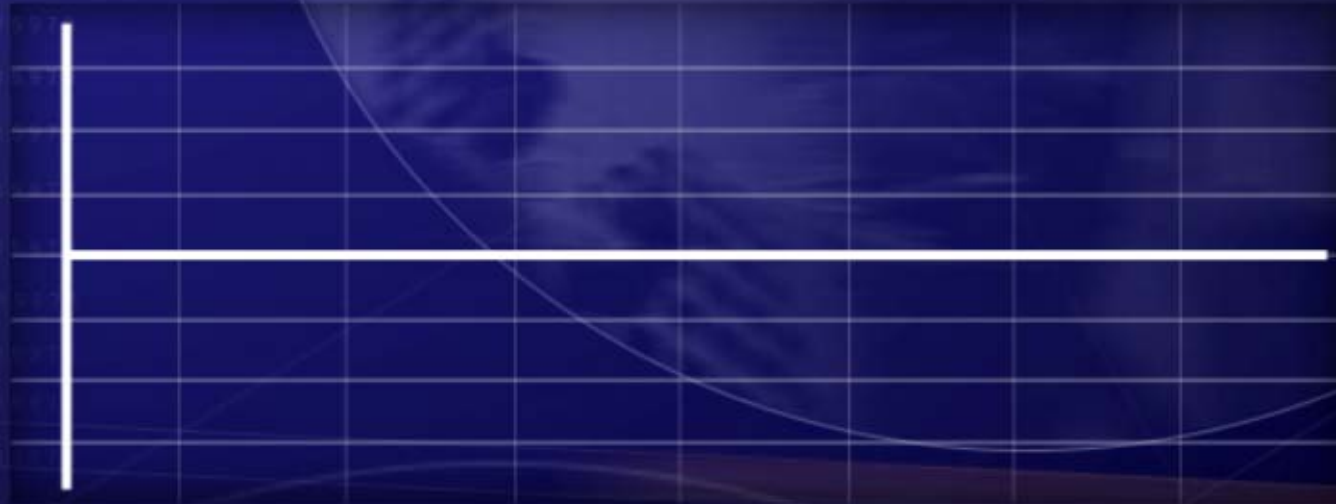


### 3. Creates value for consumers



# MSA Examples and Data

Additional Value created

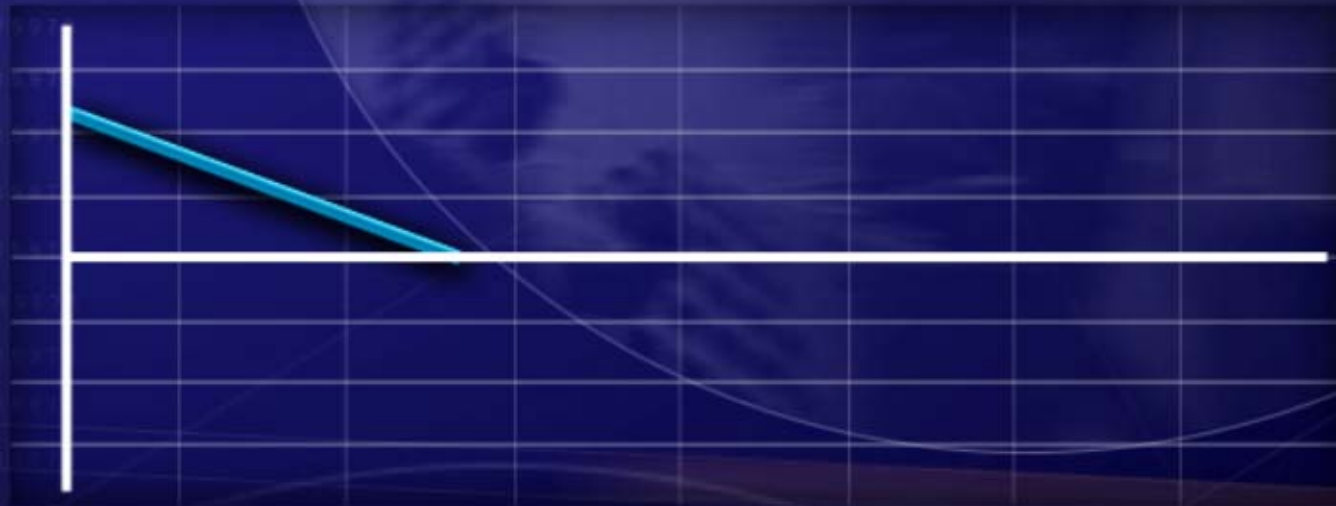


Claims



# MSA Examples and Data

Additional Value created



Claims

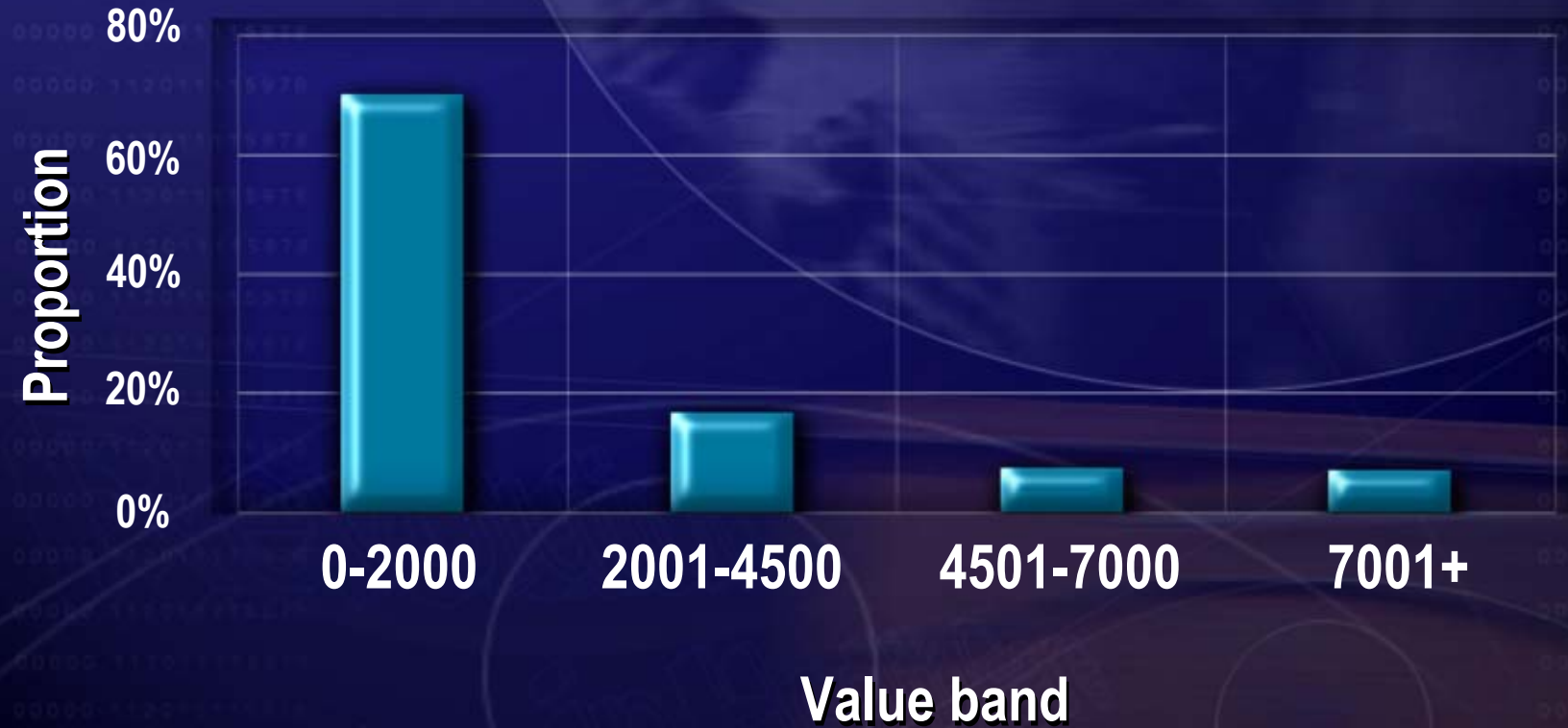
- Savings not used carried over to following year
- “Use it or save it” philosophy
- Effect is to unlock value for individual

# MSA Examples and Data

	1999	2000
<b>Medical Savings Average</b>	<b>5,342</b>	<b>6,600</b>
<b>Claims</b>	<b>4,363</b>	<b>4,849</b>
<b>Cumulative balance</b>	<b>979</b>	<b>2,730</b>

- Chosen MSA reflects expected out-of-hospital expenditure
- Actual claims less than out-of-hospital expenditure expected
- Value unlocked could fund one years' worth of out-of-hospital expenditure every five years

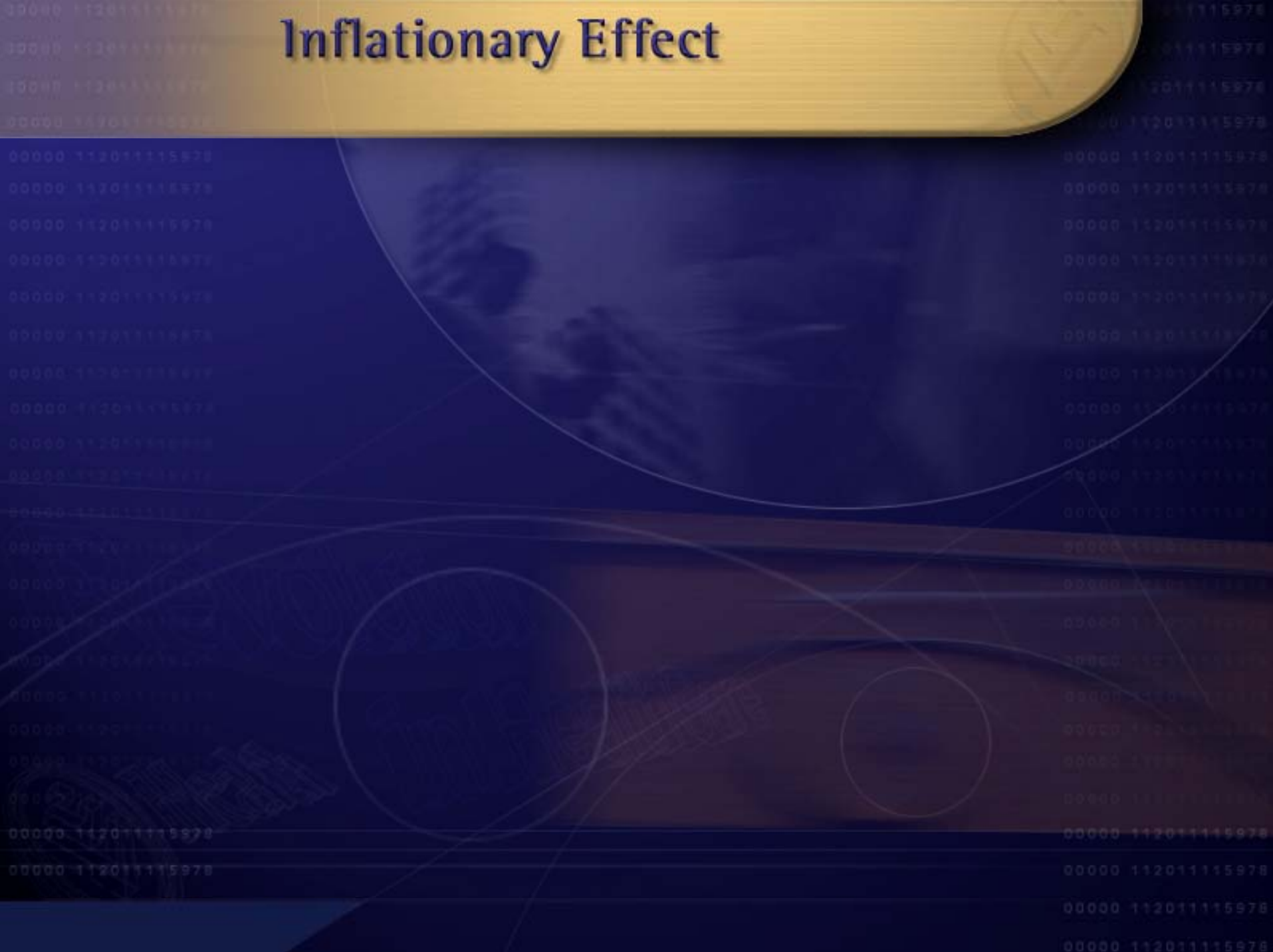
# Distribution of Value Created



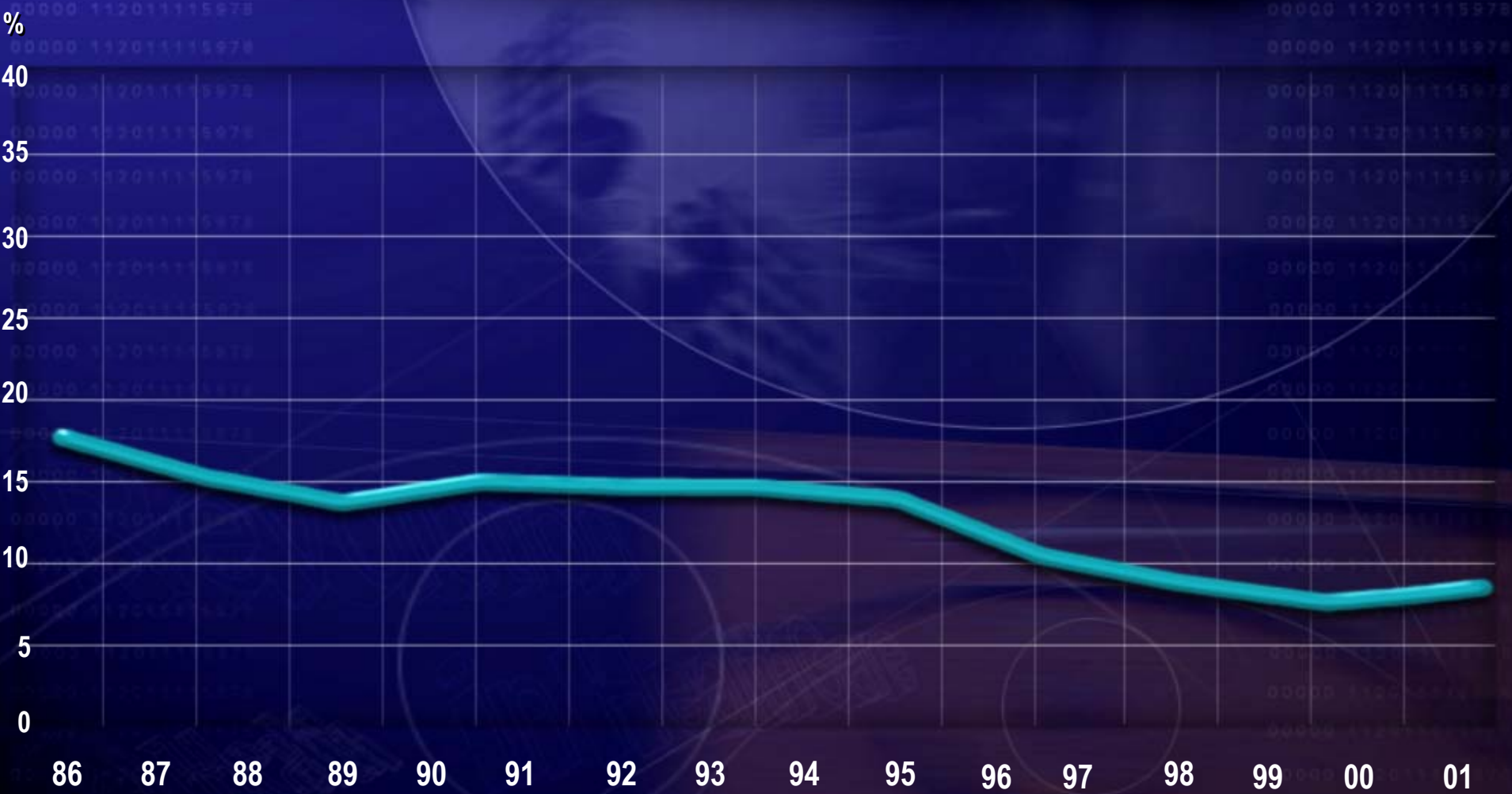
## 4. Lowers the Cost of Healthcare



# Inflationary Effect



# Inflationary Effect

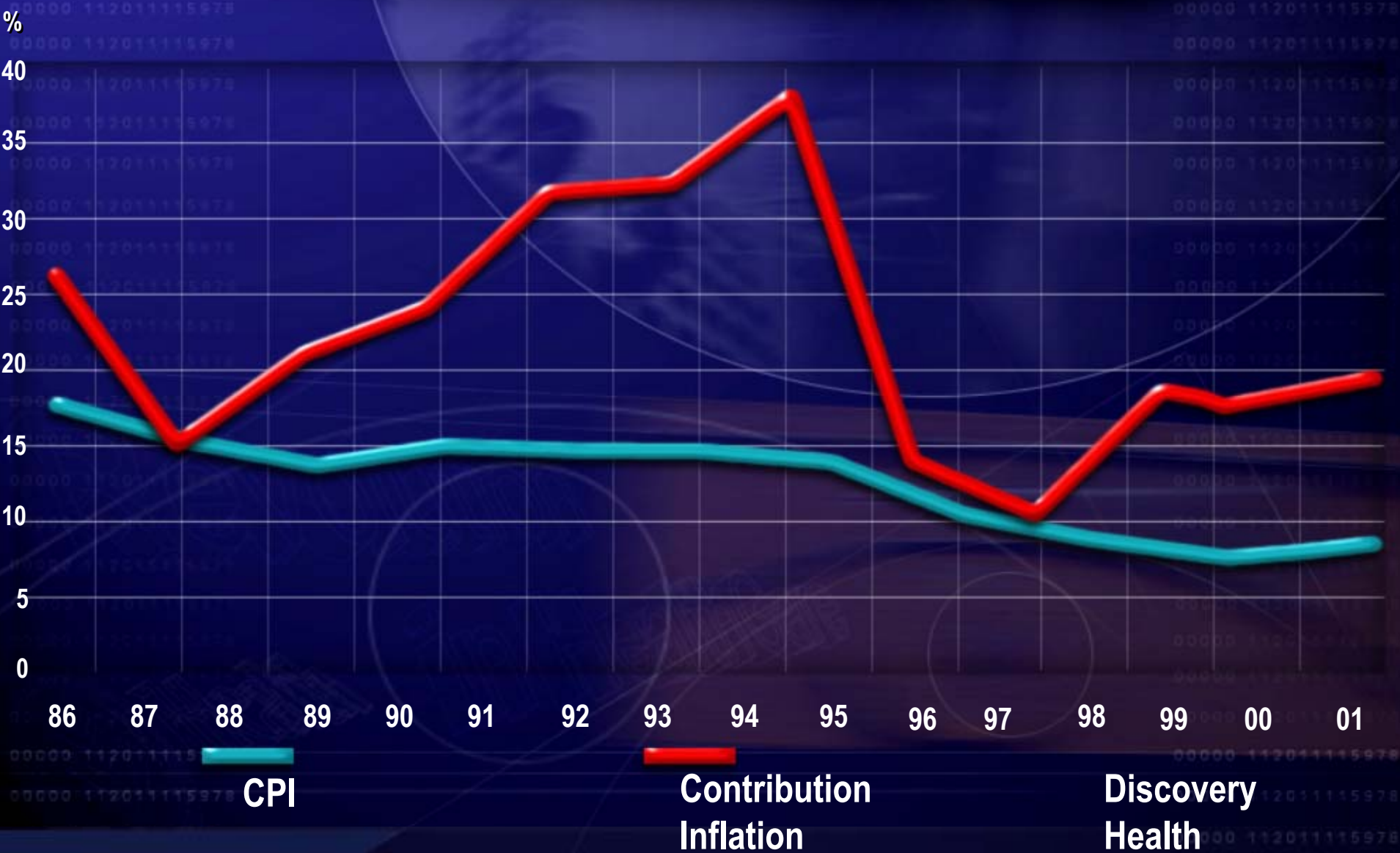


CPI

Contribution  
Inflation

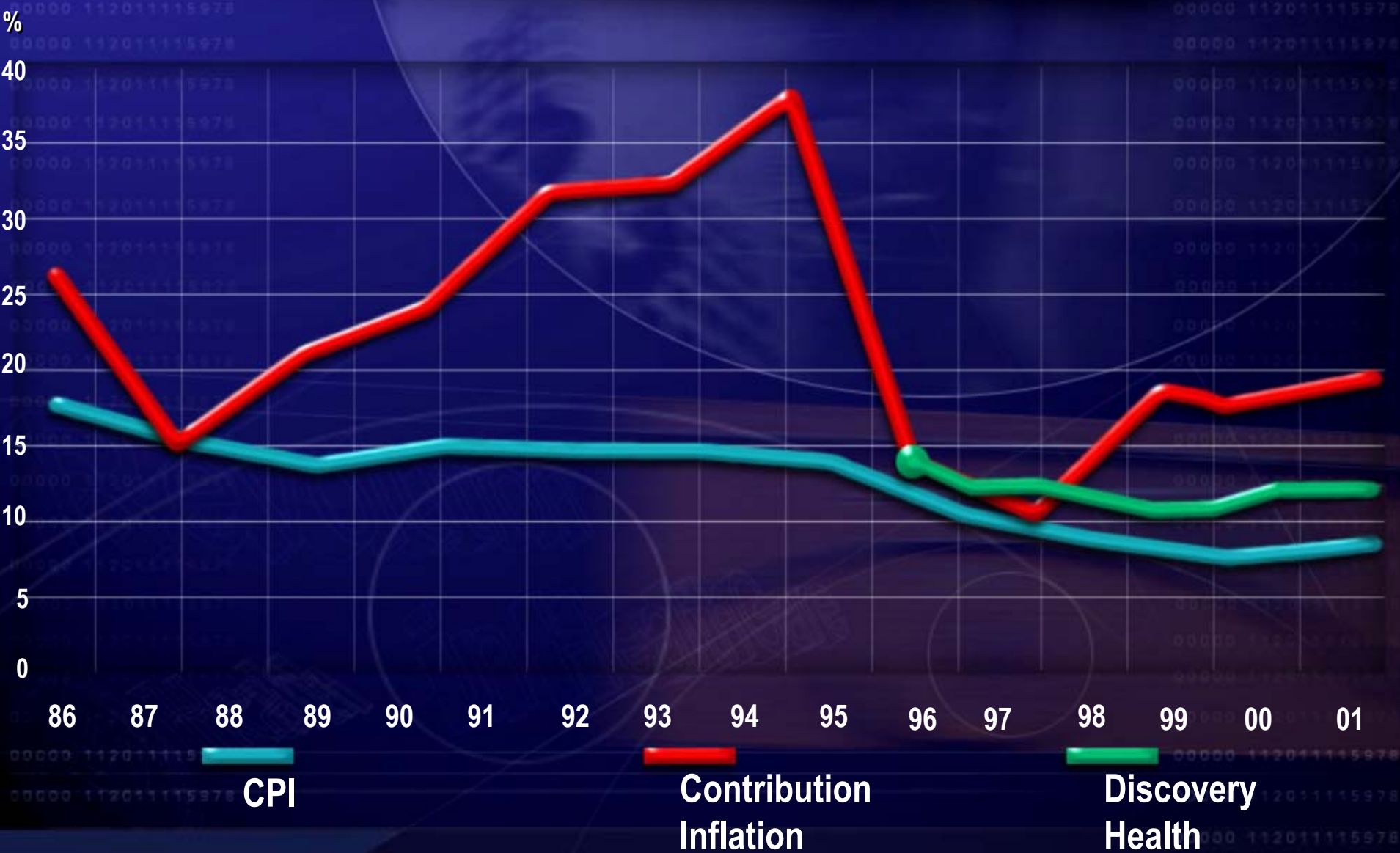
Discovery  
Health

# Inflationary Effect





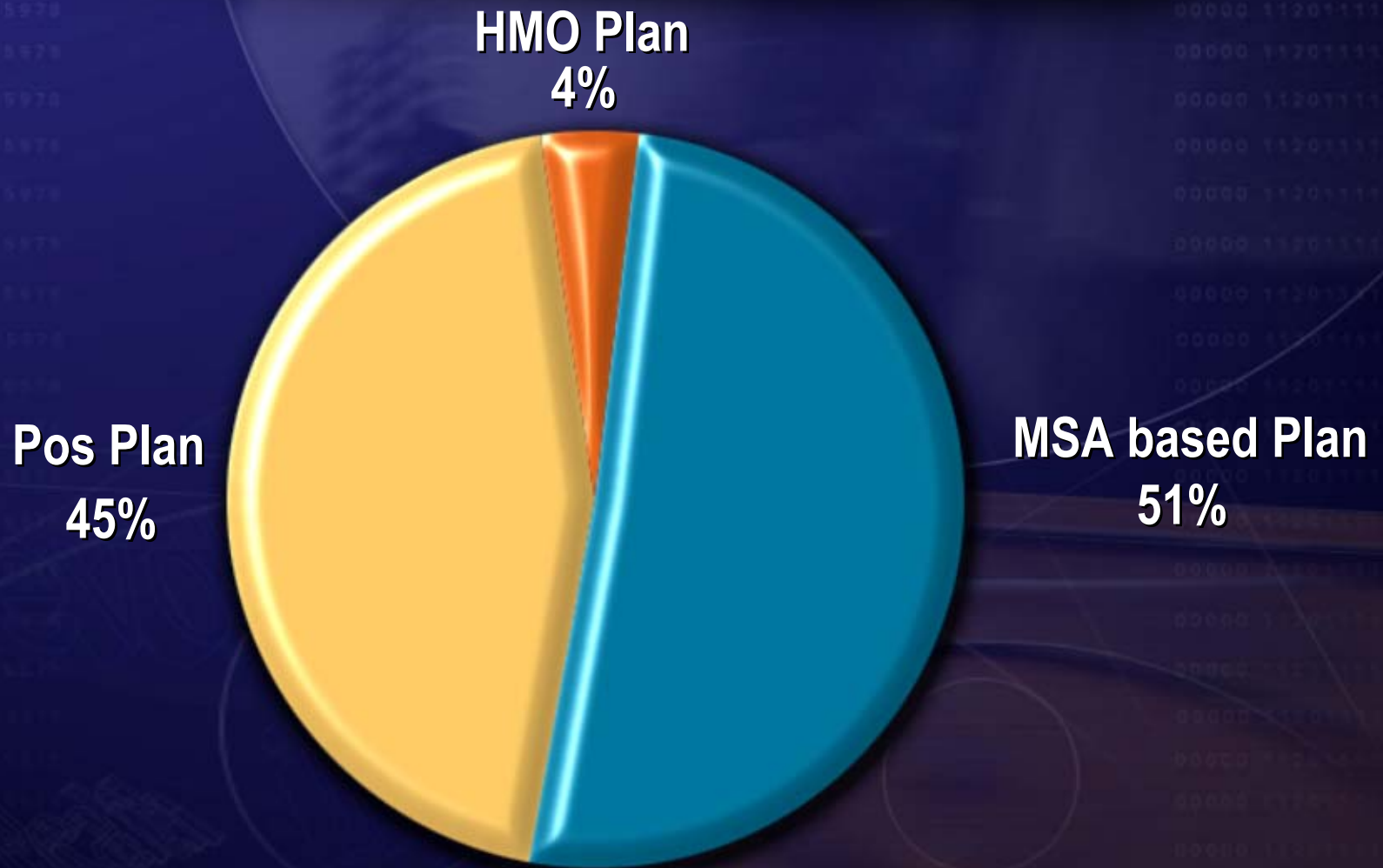
# Inflationary Effect





## 5. Increasing market penetration

# Private Healthcare Insurance Market



# Summary of Results

- 1. Efficient allocation of resources**
- 2. Positive behavioral changes**
- 3. Creates value for consumers**
- 4. Lowers cost of healthcare**
- 5. Significant market share**



# South African Private Health Insurance

**“Leading the way to consumer driven health care”**

**Hylton Kallner**

**March 2002**