



Mobilising and Managing Resources

This will change in the year ahead as a system of levies paid by medical schemes members kicks in.

The Department, which is represented on the Council by the Director-General, closely monitors the implementation of the Act and its impact on the medical schemes environment, with a view to fine-tuning the law.

Two major issues that came to a head during the year were excessive reinsurance by a number of schemes and a dispute about the dividing line between medical scheme cover and insurance.

A Council investigation revealed that the total amount paid by medical schemes for reinsurance increased from R32-million in 1996 to R1,7-billion in 1999, resulting in a net loss to the schemes of R103-million. Council members took the view that some reinsurance practices were justifiable but many were not. The result was that medical schemes were being stripped of reserves that should properly belong to members.

Council investigated 14 schemes in relation to reinsurance practices. In some instances concerns were satisfactorily addressed through interaction with trustees. Several cases were unresolved by March 2001 and in one case legal action was instituted for the restitution of funds diverted by reinsurance.

The dispute about the demarcation between medical scheme cover and insurance arose when some medical schemes began marketing “hybrid” products which provided a medical scheme component through an insurance vehicle. They argued that such products were governed by insurance legislation and did not need to meet the requirements of the Medical Schemes Act.

The resulting dispute was resolved through the publication of demarcation criteria developed jointly by the Council and the Financial Services Board (FSB). This enabled the Council to act decisively to terminate hybrid products. In addition, the Council and the FSB have established a standing demarcation committee to deal with issues that may emerge.

It is premature to assess the impact of the Act, but certainly it has not resulted in a flight of members from medical schemes. Indeed, research conducted by the Council shows modest increase in membership in the first nine months of 2000.

Similarly, allegations that the Act is the major cause of cost escalation in medical schemes are clearly unfounded. Firstly, medical inflation began to soar above headline inflation from about 1993 when major deregulation took place in the medical schemes industry. It is also clear that many factors — including inappropriate reinsurance — have contributed to this cost escalation. However, much remains to be done in the area of cost containment and the impact of the Act on costs must be monitored.

The Medical Schemes Act has introduced an environment in which the rights of members are well protected. Members can now join schemes with the assurance that a regulatory body is in place to exercise oversight of the use of their funds. They can also be confident that the State will not tolerate the erosion of benefits to the extent that they have no cover when they are most in need of urgent and essential treatment.