1. Dispensing Fee

Netcare has revealed that government’s measures to regulate medicine prices took a R60m bite out of its income over the past year and Nu Clicks reported a R38m dent in revenue because of drug-pricing rules. The pricing regulations were challenged by several pharmacy groups, which said the permitted mark-ups were too low for them to sustain their businesses. The Medicines Act also does not permit manufacturers to give discounts and rebates.

The Hospital Association of South Africa (HASA) made a submission to the pricing committee on dispensing and distribution of medicines in a private institutional pharmacy.

Health Minister Dr Manto Tshabalala-Msimang reignited debate on government’s controversial medicine-pricing regulations, saying that retail pharmacists had not passed the savings created by the new system on to consumers. She said the pricing regulations, which controlled the price at which manufacturers can sell medicines to their customers and capped pharmacists’ mark-ups at R28, had resulted in a 19% saving in the price of medicines, equivalent to R2.3bn.

Since the Constitutional Court’s judgement at the end of September 2005, the dispensing fee has been under review. This implies that medical schemes and members are likely to face having to pay a higher dispensing fee for medicines.

2. Ownership

It seems that the private hospital industry of South Africa is still dominated by 3 main players – Afrox Healthcare, Netcare and Medi-Clinic, but not without some hiccups and controversy. The planned sale of Afrox to Medi-Clinic did not take place. Afrox Healthcare has changed its name to Life Healthcare, following the Competition Tribunal’s approval of Afrox’s disposal of some of its stake in Afrox Healthcare to a consortium. The Competition Tribunal said that it would counter any attempts by Netcare and Medi-Clinic to dominate their sector, and would scrutinise any plans by the two to purchase assets or equity from Life Healthcare.

Medi-Clinic was accused by the Competition Tribunal of trying to use a black economic empowerment (BEE) deal as a front to gain control of a major competitor’s (Life Healthcare) assets (These comments were disputed). Medi-Clinic further announced that it had signed a co-operation agreement with a firm in the United Arab Emirates (UAE) to explore establishing new healthcare facilities in Abu Dhabi, a move it said could lead to “significant investments” in the region. It was also announced that Medi-Clinic will buy 49.9% of the Witwatersrand University Donald Gordon Medical Centre (WDGMC). The transaction has been finalised and was effective from 1 December 2005. Medi-Clinic has also bid for 4 of the hospitals within the liquidated Protector Group. This is subject to approval by the Competition Commission and Tribunal.

Medi-Clinic announced the first phase of a black economic empowerment transaction with a total value of more than R1.1bn, in which an effective 15% of the private hospital group will be owned by a broad-based group of black entities, including staff. The transaction involves the introduction of two strategic black partners, Phodiso Holdings Ltd and Circle Capital Ventures (Pty) Ltd, which will together acquire 11% of Medi-Clinic shares, and the formation of the Mpilo Trust, an employee share trust, that will hold a further 4%. The Mpilo Trust will represent mostly non-managerial, lower-level employees, of whom 52% are black with the vast majority (89%) being female and including administration, nursing and support staff. Black ownership will be effected partly through the purchase by the new black partners of existing Medi-Clinic shares. Both strategic black partners have existing business relationships with Medi-Clinic. Phodiso, which will hold 6.9% of Medi-Clinic, is already active in the healthcare industry. Both new black partners saw their involvement as adding value to the Medi-Clinic business. The transaction is subject to regulatory, shareholder and court approvals.

The Competition Tribunal has prohibited the proposed acquisition of PrimeCure by Medicross, a subsidiary of Netcare. In terms of the proposed transaction, Medicross, which focuses on the middle- to high-income segment of the managed care market, would acquire PrimeCure, which focuses on the low-income segment. The Competition Commission had recommended that the tribunal prohibit the transaction on the grounds that it would further concentrate an already highly concentrated market that was characterised by high barriers to entry. The commission expressed concern that the transaction would further entrench Netcare’s position in the healthcare market.

3. Managed Care Organisations

The regulator of the private medical aid industry, the Council for Medical Schemes (CMS), has considered relaxing some healthcare regulations,
such as prescribed minimum benefits (PMBs) to make affordable medical aid cover available to low-income households. In the light of the time it has taken to amend other legislation, there are concerns that the time frame of a year is not enough. Medical schemes, fearing an exodus of public sector members to the Government Employees Medical Scheme (GEMS), are turning to the corporate sector to swell their ranks. GEMS was registered with the Council for Medical Schemes in 2005, and launched in 2006 with more than 1 million principal members and 3 million beneficiaries. Several schemes would be affected by the introduction of GEMS. As medical schemes debated ways to make private healthcare more affordable, health minister Manto Tshabalala-Msimang said the current healthcare system is unfair and has to be remodelled. She warned that she would not allow private hospitals to dent the new model. She also proposed to introduce a social health insurance (SHI) system in South Africa that could start operating by January 2007.

Medical schemes catering for low-income earners may soon be able to provide a reduced set of minimum benefits to their members and in this way lower the cost of healthcare cover. The Council for Medical Schemes has put a halt to schemes offering different levels of medical savings accounts (MSAs) to members to pay for day-to-day healthcare within different option packages. Schemes will now have to offer a single MSA contribution level up to 25% of member’s total contributions.

Discovery Health has shocked its competitors with the unexpected announcement that it is entering the low-income end of the primary medical care market. This emerged amid the competition tribunal’s hearings into the proposed acquisition of Prime Cure Holdings by Medicross Healthcare Group, a Network Healthcare (Netcare) subsidiary. The announcement appears to have undermined part of the competition commission’s case against the proposed acquisition of Prime Cure. It seems to undermine Discovery’s own objections to the Netcare transaction. Both the commission and Discovery objected to the merger on the grounds that it would result in further concentration of an already highly concentrated market. The registrar of medical schemes has called on competition authorities to take a closer look at private hospitals’ business practices, saying their high fees threaten to make medical scheme membership unaffordable. The high fees are at odds with government’s plans to encourage more people to join schemes by lowering the cost of membership.

4. Public Private Partnerships (PPPs)

The Black Healthcare Caucus (BHC), which aims to accelerate transformation in the industry and facilitate greater interaction between the private and public sectors, was launched in June 2005. The BHGs aim is to partner government in assisting with the delivery of quality and affordable healthcare to all South Africans, especially the indigent and unemployed. Private hospital companies say they lost a combined R87-million nationally last year, providing emergency care for patients who should fall under the public health system. The companies are calling for a private-public partnership with the National Health Department.