

There's room for new players, says Discovery Health CEO –

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Discovery, which is increasingly under fire for its dominance, calls for regulation that would make it easy for new medical scheme players to enter the market.

At a time when SA's private health industry is increasingly criticised for the dominance of few players that are profiting from abnormally high premiums, Discovery Health CEO Jonathan Broomberg says there is still room for new and emerging private medical scheme players.

“There are currently 22 open medical schemes and if there were more, it would certainly be good for competition and good for consumers,” Broomberg tells Moneyweb.

Broomberg's view follows the unveiling of the long-awaited provisional findings of the Competition Commission's Health Market Inquiry (HMI), which made scathing remarks on the inefficiency of competition and the success of Discovery Health Medical Scheme.

Of the 22 medical schemes open to the public, just two hold 70% of the market in terms of the number of members they have, according to the HMI's findings. One of these is the Discovery Health Medical Scheme, which holds 55% of the medical schemes market.

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The HMI panel – led by former chief justice Sandile Ngcobo – found that Discovery's business model had enabled it to make large profits at the expense of its competitors, which was an indication of “market failure”. And with the absence of new and emerging players in the medical aid scheme industry to challenge Discovery, there are no signs that the market would self-correct, the HMI found.

Broomberg has been at pains to defend Discovery's success and profitability, saying it's not a reflection of high premiums but rather its innovation and operational efficiency is driven by management.

An analysis by Discovery showed that its premiums were on average 16.4% lower than the next eight competitor schemes in 2017. Broomberg says lower premiums is one of the reasons why approximately 1 000 new members join its medical scheme daily.

“Where we do disagree with the HMI panel is in its implication that the lack of competition is somehow the fault of successful players in the market. It does not make sense to blame a highly successful company that has grown organically,” he says.

“One should rather ask why is it that competitors have not kept pace and also at the regulatory barrier to entry for new competitors. It is critical that the real causes of weak competition be identified and addressed. Blaming the successful companies will not enhance competition.”

The HMI didn't make recommendations on lessening the dominance of few players in the market. Instead, it made several recommendations about how medical schemes, private medical specialists and hospital groups could give consumers value for money.

Regulation hurting new players

Although Discovery believes that having more players would give consumers more options, Broomberg says policy uncertainty is hindering this.

“The Department of Health and Council for Medical Schemes recently signalled its interest in reducing the number of schemes in order to get a smaller number of larger risk pools and to ensure alignment with the NHI,” he says.

“At the same time, the NHI is suggesting that more schemes be allowed to enter the market. There is clearly some policy confusion here and this needs to be resolved and clarified in the not too distant future.”

The HMI found that it's difficult for new medical scheme players to enter the market as failures in regulation and governance have contributed to a lack of competition and high levels of concentration. Broomberg agrees with this finding, saying that although regulation is intended to protect consumers from risk, it's making it difficult for new entrants.

“We firmly believe that there should be a balance between regulation that protects customers versus regulation that makes it impossible for new entrants to enter the market. If there is no balance, then this results in a concentrated market.”