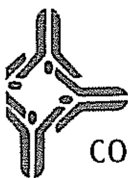

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Date: 6 December 2007

CIRCULAR NO 49 OF 2007

FINANCIAL REPORTING BY ACCREDITED MANAGED CARE ARRANGEMENTS

1. CAPITATED RISK TRANSFER ARRANGEMENTS

IFRS 4 is applicable to all issuers of insurance contracts and medical schemes fall within this definition. The Standard also has specific requirements in regard to reinsurance contracts, which includes risk transfer arrangements that take place between medical schemes and managed care organisations. The intention is to report on the results of these transactions and ensure proper disclosure of value for money in respect of managed health care contracts.

IFRS 4 is applicable to every contract in which "significant" risk transfer takes place. While the standard does not define ''significant risk transfer," it does state that "insurance risk is significant" when an "insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance". It further states that the significance of insurance risks is assessed on a contract by contract basis, rather than by reference to materiality to the financial statements. Significant risk transfer is therefore determined on a case by case basis in respect of each individual contract and would occur if a significant part of the risk relating to a specific benefit is transferred to a managed care organisation.

IFRS 4 requires that where a contract makes provision for payments in kind, instead of compensating for losses in cash, the scheme must report what the costs of the benefits supplied would have been, had the scheme not entered into the capitation agreement. These estimated claims costs are required to be reported in the audited annual financial statements and in the annual return, part 4.13 and in the quarterly returns parts 3.5.1

In order for schemes to calculate and report on these claims, managed care organisations are required to provide the necessary claims information to schemes on a monthly basis. Note that it is not the cost to the managed care organisation that is required, but the number and type of services (diagnosis and treatment) provided. This information is required per member and beneficiary.

The Council for Medical Schemes has resolved to extend the accreditation standards that apply to managed care organisations to include reporting of services rendered in respect of capitation fees payable to managed care organizations. This is in line with the requirements of:

- Regulation 15D(a)(v) which requires details of analytical methods used to assess utilization and price of health care services;
- Regulation 15B(2)(d) – the managed care organisation is fit and proper to provide the contracted services and it has the necessary resources, systems and skills to do so;
- Regulation 15F – the managed care service so contracted in return for a capitation fee is in the interest of members of the medical scheme, it is a genuine transfer or risk from the scheme to the managed care organisation and the fee is commensurate with the extent of the risk transferred.
- Regulation 15J(2)(c) – regulating access to information by medical schemes in terms of managed care contracts

We have therefore amended the accreditation standards and the self evaluation checklist for managed care organisations to incorporate disclosure of applicants' ability to demonstrate "value for money" and to report on their activities on a regular basis. This will enable medical schemes to evaluate such arrangements and report thereon as required by this office. The revised documents will be posted on the Council website soon.

2. MANAGED CARE: MANAGEMENT SERVICES

We require medical schemes to report on an annual and quarterly basis, details of the managed care management services paid by schemes to managed care organisations (annual return part 4.12 and quarterly return part 3.4).

Certain managed care organisations currently provide bundled managed care: management services to medical schemes for a composite fee. Managed care organisations are required in future to allocate the fee over the various services covered by the contract on order to properly provide the information required

Kind regards;

6/12/2007

T. PATRICK MASOBE
REGISTRAR OF MEDICAL SCHEMES

Chairperson: Prof. William Pick Vice-Chairperson: Dr Saadiq Kariem Chief Executive & Registrar: Patrick Masobe

A STATUTORY BODY ESTABLISHED IN TERMS OF THE MEDICAL SCHEMES ACT, 1998 (ACT 131 OF 1998)