

Chapter 6

Medical Scheme Risks

When business fails to distinguish
the long-term effects of gradual
changes, it displays the classic
'boiled frog' syndrome

Sunter et al., 2002

Risk identification seeks to
pin down all risks facing the business

Pickford, 2001: 55

6.1 Introduction

In the most general sense, any activity undertaken by a business entails some form of risk and ultimately every risk has the potential to impact the business (Academy for Healthcare Management, 1999: 2-5).

Accepting risk is a key business function and a vital part of the private healthcare administrator's activities. It also involves managing those risks to ensure that members interests are protected and that suitable benefits are provided to members at reasonable cost.

Before the author embarks on defining a suitable risk management methodology it is necessary to understand the risks faced by today's medical schemes.

6.2 Aim

Issues to be addressed in this chapter are the establishment of a plausible definition for risk and identifying the most significant risks encountered by medical schemes in South Africa.

Relevant results from the empirical study will be relied upon to substantiate findings.

6.3 Risks faced by the private healthcare administration organisation

Various sources were consulted in preparing a list of probable risks facing the medical scheme environment, which would be assessed as part of the empirical study conducted. These sources included:

- Academy for Healthcare Management, 1999
- Discovery, 2001
- Council of Medical Schemes, 2001
- Harrington *et al.*, 1999
- Financial Mail, 2000
- Hymans, 2001
- SAHR Study, 2000a
- SAHR Study, 2000b

To ensure completeness, respondents to the empirical study were requested to indicate whether any risks were omitted and required assessment. No additional risks were cited.

Table 6.1: Scales applied in prioritising risks

Scale	Consequence	Description	Scale	Likelihood	Description
5	Catastrophic	Close of business unit	5	Almost certain	Event will occur at an unknown future date
4	Major	Extensive loss of production time	4	Likely	Significant chance that event will occur
3	Moderate	Lost production time	3	Possible	Good chance that associated event will occur
2	Minor	Slowed business processes. Impact on future business growth	2	Unlikely	Risk has been identified but event highly unlikely to occur
1	Insignificant	Business as usual. Management takes note and will still implement controls	1	Rare	May only occur under exceptional circumstances

Risks prioritised in figure 6.1 were assessed based upon two criteria, viz. consequence and likelihood. These criteria are defined as:

- *Consequence*: The financial loss and sustainability of key operations in the event of the risk being realised.
- *Likelihood*: The likelihood of the risk occurring.

A description of the scales applied in determining the results of figure 6.1 is included in table 6.1. It is important to note that scores exclude the effectiveness and frequency of internal controls in place within the respective organisations that participated in the empirical study.

Table 6.2 provides a description of the risks detailed in figure 6.1 and their associated categories. Section 8.3.2 in chapter 8 provides guidance on the most common types of risks and processes which are encountered in a

healthcare financing organisation. The risk framework suggested in figure 8.1 of chapter 8 was relied upon in setting up the empirical study questionnaire.

Figure 6.1: Empirical study results: prioritised individual risks

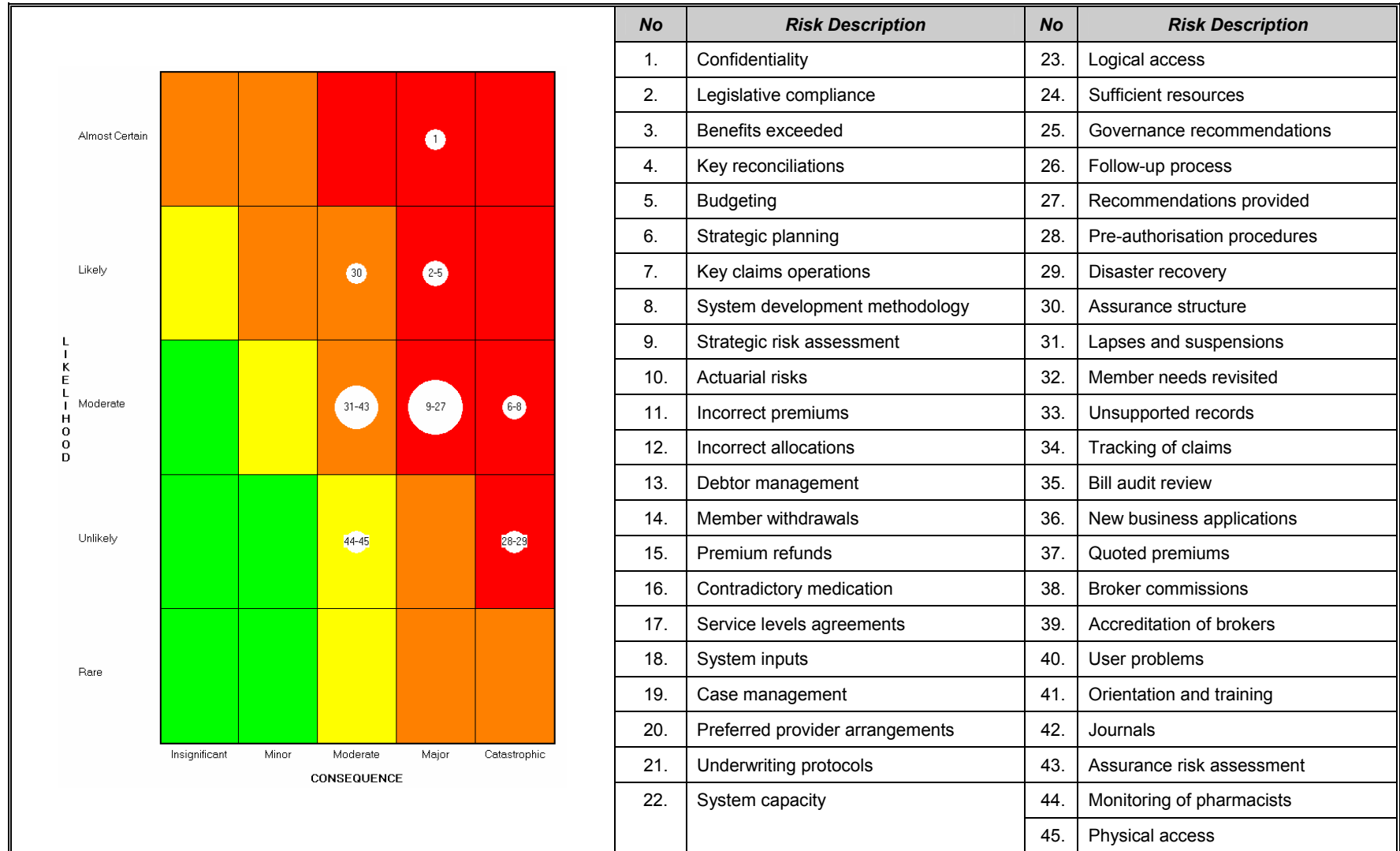


Table 6.2: Prioritised risk descriptions and associated categories

No	Risk Category	Risk Description	Details
1.	Strategy and Statutory	Confidentiality	Unauthorised personnel have access to financial/medical information.
2.	Strategy and Statutory	Legislative compliance	Control mechanisms to ensure compliance with governing legislation are not in place.
3.	Medical risk management and chronic benefits	Benefits exceeded	Members exceed their benefit allowances.
4.	Finance and Administration	Key reconciliations	The finance department does not reconcile or follow-up outstanding items on reconciliations between all systems and the general ledger on a frequent basis.
5.	Finance and Administration	Budgeting	No formal budgeting system in place and monitoring of expenses ongoing.
6.	Strategy and Statutory	Strategic planning	Senior management have not taken responsibility in developing long to short-range business plans that will allow the medical scheme's mission and goals to be achieved.
7.	Claims management	Key claims operations	Performance in terms of key claims operations are inadequate.
8.	Information technology	System development methodology	The existing system development methodology does not address all key control areas expected within a systems development environment.
9.	Strategy and Statutory	Strategic risk assessment	Management has not established its own systematic risk assessment framework that is applied on a consistent basis.

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No	Risk Category	Risk Description	Details
10.	Actuarial risk management	Actuarial risks	<p>The following 5 criteria are not considered in actuarially based calculations:</p> <ul style="list-style-type: none"> • <i>Asset risk</i>: The risk of adverse fluctuations in the value of assets. • <i>Underwriting risk</i>: The risk that premiums will not be sufficient to pay for services or claims. • <i>Credit risk</i>: The risk that providers and plan intermediaries paid through reimbursement methods that require them to accept utilisation risk will not be able to provide the services contracted for and the risk associated with recoverability of the amounts due from reinsurers. • <i>Business risk</i>: The general risk of conducting business including the risk that actual expenses will exceed amounts budgeted. • <i>Economic risk</i>: The risk that is inherent to the South African economy for e.g. the Dollar/Rand exchange rate fluctuations, and interest rate fluctuations.
11.	Premium risk management	Incorrect premiums	Incorrect premiums charged to members.
12.	Premium risk management	Incorrect allocations	<p>Premiums received are not correctly allocated resulting in:</p> <ul style="list-style-type: none"> • Members receiving none/inadequate benefits. • High incidences of client queries and dissatisfaction.
13.	Premium risk management	Debtor management	<p>Outstanding debtors are not properly managed in terms of:</p> <ul style="list-style-type: none"> • Ageing of debtors • Reconciliations • Follow-up of debtors and tracing accounts
14.	Premium risk management	Member withdrawals	Member withdrawal debt (claw back) is not proactively managed and followed-up resulting in high cost to the scheme in terms of debt collection and legal costs.
15.	Premium risk management	Premium refunds	Incorrect or unauthorised premium refunds resulting in loss of income for the scheme.

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No	Risk Category	Risk Description	Details
16.	Medical risk management	Contradictory medication	Suitable checks are not conducted to ensure that medicines applied for are not in contradiction with one another.
17.	Customer management	Service levels agreements	Non-achievement of service level agreements and customer expectations in terms of: <ul style="list-style-type: none"> • Call centre management • Provider relations • Marketing initiatives • Public relations and reputation management.
18.	Claims management	System inputs	Inadequate system input standards are not in place.
19.	Medical risk management	Case management	Lack of concurrent and retrospective case management.
20.	Premium risk management	Preferred provider arrangements	Lack of understanding and application of preferred provider arrangements.
21.	New business and brokers	Underwriting protocols	Underwriting of new members not compliant with Medical aid rules.
22.	Information technology	System capacity	The non-measurement and ongoing monitoring of system capacity resulting in key applications being unavailable.
23.	Information technology	Logical access	Uncontrolled logical access to systems may result in unauthorised admittance to confidential data.
24.	People management	Sufficient resources	Sufficient human resources are not in place to achieve business objectives.
25.	Strategy and Statutory	Governance recommendations	The scheme does not address existing corporate governance standards and other oversight body recommendations.
26.	Assurance	Follow-up process	No formalised process in place whereby follow-up occurs on reported items to management.
27.	Assurance	Recommendations provided	No formalised assurance services process to provide recommendations to management on weaknesses identified.

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No	Risk Category	Risk Description	Details
28.	Medical risk management	Pre-authorisation procedures	Incorrect pre-authorisation procedures when loading in-hospital events.
29.	Information technology	Disaster recovery	Failure to continue business activities in case of a disaster, as a result of a lack of a disaster recovery plan.
30.	Assurance	Assurance structure	Assurance services do not address existing corporate governance standards and other oversight body recommendations.
31.	Premium risk management	Lapses and suspensions	Lapses and suspensions are not followed-up timeously resulting in losses for the scheme.
32.	Medical risk management	Member needs revisited	Suitable monitoring controls are not in place to assess the member's needs for chronic medication on a regular basis.
33.	New business and brokers	Unsupported records	Not all members loaded are supported by an authorised application form.
34.	Claims management	Tracking of claims	Lack of controls with regards to collection and insufficient tracking procedures of claims.
35.	Medical risk management	Bill audit review	Insufficient bill audit review process.
36.	New business and brokers	New business applications	New business applications are not distributed to all outbound activities and service in a timely manner.
37.	Premium risk management	Quoted premiums	Premiums quoted disagree to actual premiums charged.
38.	New business and brokers	Broker commissions	Performance in terms of key broker commissions operations is inadequate.
39.	New business and brokers	Accreditation of brokers	No accreditation process for brokers.

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No	Risk Category	Risk Description	Details
40.	Information technology	User problems	Loss of productivity due to user problems not being addressed timeously.
41.	People management	Orientation and training	Appropriate orientation and ongoing training is not provided to set/maintain the knowledge and skills of all personnel.
42.	Finance and Administration	Journals	Adjusting journals and journal descriptions are not controlled and the necessary authorisation is not obtained.
43.	Assurance	Assurance risk assessment	Assurance services have not established their own systematic risk assessment framework that is consistently applied.
44.	Medical risk management	Monitoring of pharmacists	Little/No controls in place to effectively monitor the decisions made by pharmacists.
45.	Information technology	Physical access	Uncontrolled access to the high risk IT premises may result in damage to company resources.

Based on the results included in figure 6.1 and table 6.2, the individual risks of confidentiality, compliance with legislation and ensuring that prescribed benefits are not exceeded, top the list of major risks faced by South African medical schemes.

The Academy for Healthcare Management in the United States provides some indication of which risks are considered important for a healthcare organisation in the United States (Academy for Healthcare Management, 1999: 2-6 to 2-9):

- Strategic planning;
- legislative compliance (with specific reference to maintaining required statutory solvency levels);
- budgeting;
- incorrect premiums; and
- benefits exceeded

Regarding Europe, in chapter 5 section 5.3.2, legislative compliance and the development of a suitable regulatory framework are cited as the most pressing issues.

Although the United States and European risks are not prioritised, it is interesting to note that all of these risks appear within the top 15 risks reflected in the empirical study results included in figure 6.1.

6.4 Summary and conclusion

The chapter identifies the top risks faced by the medical scheme environment as confidentiality, compliance with legislation and ensuring that prescribed benefits are not exceeded. A complete prioritised list of the 45 risks faced by the environment is included in table 6.2 of this chapter. Similarities between the key risks within the American and European based healthcare organisations and South Africa was noted.

The medical scheme environment is a complex combination of processes and operations with the primary aim of ensuring that members are provided with cost effective health cover. To support this primary business objective it is necessary that risks are identified and suitably managed in a timely fashion.

The process followed in identifying the most significant risks within the medical scheme environment includes identification, analysis, measurement and prioritisation. The following chapters provide management with a suggested methodology that will initiate the journey and provide some suggestions on achieving world-class status regarding corporate risk management.