



## **HQA**

### **INTRODUCING A NEW TOOL FOR MEDICAL SCHEME MANAGEMENT**

This document introduces Health Quality Assessment (HQA) to interested parties in the South African medical scheme industry. HQA is a not-for-profit (s21) company, with the following founders: ABSA Health, Discovery, Medscheme, Medihelp, MxHealth, Multimed and Old Mutual Health. Membership is currently open to medical schemes and their administrators, and since 2004 HQA has been associated with the BHF. Once the first set of reports had been distributed and HQA has gained acceptance in the industry, membership of the organization will be reviewed and may be opened to other stakeholders. The Board of HQA includes representatives from BHF, the Council for Medical Schemes, the Consumer Union and medical schemes / administrators.

In the rest of this document, we discuss the methodology and practical arrangements relating to HQA.

### **The need for health quality measurement**

There are a number of policy initiatives of the Department of Health that increases the need for some form of independent measurement of the quality of health care received by members of medical schemes. These are:

1. The requirements of PMB legislation, which encourages schemes to have designated service provider networks. Where such DSPs exist, it is now more likely that schemes would enter into alternative reimbursement agreements with networks, which in turn indicates the need for members to be informed of the quality of health care delivered by such networks, particularly if alternative reimbursement arrangements may influence the behaviour of service providers. There has indeed recently been a proliferation of such network agreements in the market and it is important for Trustees to know whether the agreement entered into does indeed provide good quality health outcomes to members. In other words, there is a need **to measure the performance of a network** in terms of achieving certain health outcomes.
2. Under the proposed risk equalization fund (REF), it is the intention that there should be a standard basic benefit package (and standardized supplementary benefit packages). Whilst the benefits offered under these packages will be standardized across the industry, and members would therefore find it easier to compare options of different medical schemes in terms of Rand amount of benefits, it will be increasingly difficult for members to compare their *entitlement* to benefits under the different protocols used by different networks. In other words, the service provider may now be incentivised not to provide treatment under a capitation arrangement<sup>1</sup> and the question is whether the Trustees are in a position to adequately measure health outcomes to prevent this from affecting the health of the member. There is therefore a need **to measure the health outcomes achieved by a certain protocol**.
3. When Trustees consider the *form* of managed care to adopt for a scheme, they will also be interested to know whether, for instance, capitation or per diem arrangements achieve better health outcomes than the treatment that members may obtain under traditional fee-for-service schemes with benefit limits for non-PMB conditions. In other words, there is a **need to measure the health outcomes achieved under different forms of managed care**.
4. The introduction of mandatory ICD-10 coding would hopefully make it considerably easier for schemes to collect data on diagnosis. With an increased focus on diagnostic information, it becomes more viable for schemes to relate different episodes of treatment to a particular condition and hence measure the effectiveness of treatment. It is however likely that some service providers may attempt to achieve access to higher PMB benefits offered by schemes by misreporting diagnosis. However, if such service providers know that their health outcomes would be measured and compared against their peers, they may be less inclined to do so, since misreported diagnosis (or “diagnosis creep”) would in many cases create the impression that they are not achieving good quality health outcomes. Furthermore, some managed care providers currently do not collect full data on treatment provided and this makes it difficult for Trustees to evaluate their performance. This would have to change if there is a system of health outcome measurement. In other words, **measuring health outcomes would increase the**

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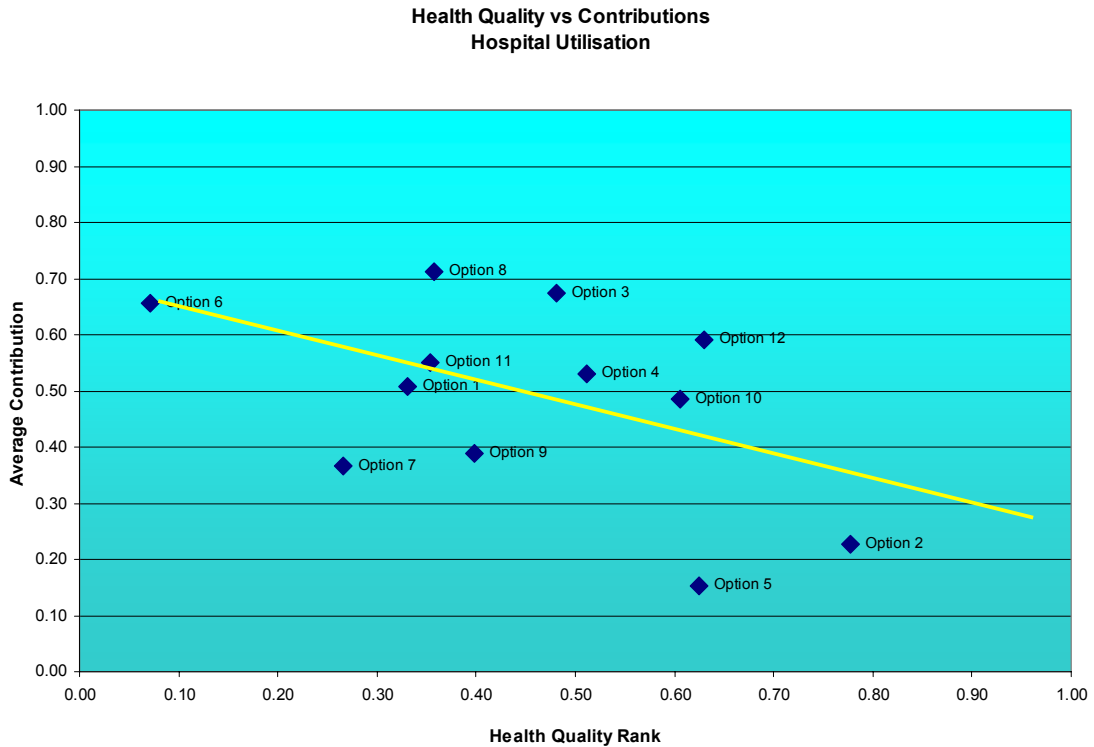
<sup>1</sup> This is of course not true of all capitation arrangements.

**incentive for service providers to provide accurate diagnostic codes**, which is in the interests of the entire industry.

## **How do we measure health outcomes? What are the results?**

The fair and accurate measurement of health outcomes is by no means trivial. HQA has spent considerable time to develop a model which we believe may be a good first step to achieving this aim. However, our model will necessarily be an evolving one, and we expect changes in methodology and data as we work with a larger industry database. Nevertheless, the following is a short summary of how we measure health outcomes:

1. The first principle is that the data is **standardized for age and gender**. In other words, we compare only members and beneficiaries with similar ages and genders with each other. We also have (albeit incomplete at this stage) some data on chronic utilization, which also allows us to make adjustments for the chronic profile of a scheme.
2. Secondly, all measurement of outcomes is **relative**. In other words, we do not make value judgements on how many hospital admissions there *should* be per asthma patient, but our method points out if the members in a particular option suffering from asthma, for instance, have a considerably higher or lower admission rate than the rest of the market.
3. A number of data items are collected for a range of surgical procedures, chronic conditions and primary care provision. We therefore form a picture of relative success of health outcomes by considering a **multiple** number of indicators, rather than one at a time. For instance, we will consider the number of hip replacements, the cost, length of stay and incidence of multiple admissions for every case of hip replacement – all per age and gender group. We then collect such statistics for a number of conditions / treatments: deliveries, hysterectomies, spinal fusions, stents, by-pass grafts, tonsillectomies, ischaemic heart disease, diabetes, depression, asthma and primary care (e.g. benzodiazapines, anti-biotics, lipograms, etc)
4. All indicators are **ranked** per option per scheme, and the overall ranks for different categories then add up to a health outcome rank for a particular option.
5. This is then compared against the **contributions** required by different options, and all contributions are ranked in a similar fashion.
6. The results are then analysed statistically and a curve fitted through all data points for the different options. This curve indicates whether a particular option provides a good health outcome for the contribution paid by its members, as indicated in the following graph:



7. In the graph above, those options falling above the line are *less* expensive than the market for the health outcomes achieved and those below the line offer poorer value for money in terms of health outcomes achieved. The line slopes downwards, which indicates that members generally have to pay more to achieve better health outcomes. With more data, it will most likely be possible to obtain a line with a better statistical fit and perhaps with a different or more interesting shape.

More detail on the method of ranking followed is available on request, and a full report will be presented to each scheme participating.

### Who does the calculations?

HQA has appointed Deloitte & Touche Actuarial & Insurance Solutions (“Deloitte AIS”) to perform the calculations and the ranking for this exercise. Deloitte AIS currently employs 21 actuaries and around 25 actuarial assistants, and has a large health care actuarial practice.

Deloitte AIS will collect all data for this exercise directly from schemes / administrators and will provide confidentiality guarantees to all participants. An example confidentiality guarantee is attached to this document, and will be signed for each participant. Data will be maintained on the

secure Deloitte database and no participant will have access to the data of any of the other participants.

## **What is the process?**

Data will be collected up to three times a year, and each scheme will receive a minimum of one and a maximum of three reports:

- First batch of data delivered mid April, report in the first two weeks of June. This will allow schemes to consider the outcomes when commencing with benefit design and the appointment of networks for the following year. This is the main report for the year, and participants have to contribute to at least this report.
- Second batch of data will be delivered end of July, with the report ready in the second week of September. This will allow schemes to take into account the current benefit year's outcomes in the finalisation of benefit design. This report is optional.
- The final batch of data is then collected at the end of October, with the final report in a year presented in the first two weeks of December. This report is optional.

The data can be delivered in either a summarized format or as raw data. If it is delivered as raw data, the cost would differ (please see below). Each participating scheme will receive a report based on information supplied. The report will show how a scheme's options compare with the market. The report will identify a participating scheme's options, but will not identify the other options against which its options are being compared. This is to protect the confidentiality of participating schemes and their options.

## **What are the costs?**

The costs of producing the report are currently estimated as follows:

- HQA membership costs R5 000 per year
- HQA members who supply data in correct format: R10 000 per option for the main report
- HQA members who supply data in the correct format: R5 000 per option per follow-up report
- HQA members supplying raw data: R60 000 per scheme per report in addition to the above

All fees exclude VAT and apply to 2005.

Finally, we recommend that, should an administrator or scheme decide to participate, the relevant person(s) in charge of data extraction contact us to ensure that all uncertainties about data are addressed beforehand.

We attach a document indicating the terms of engagement, and the confidentially guarantee. If you have any questions, please contact Emile Stipp on any of the numbers indicated below. Alternatively, you may contact Ashleigh Theophanides as indicated below.

## **Matters for agreement**

As noted above, we attach an agreement for your attention. The main matters addressed in this agreement are the following:

1. The client (i.e. a medical scheme) agrees to become a member of HQA, and pay the relevant fees to HQA
2. The client agrees to provide data in the format requested to Deloitte.
3. Deloitte agrees to protect the confidentiality of all information.
4. The client agrees not to publish the results of this investigation to third parties, without the consent of Deloitte. This clause is particularly important for the initial phase of this project. Until such time as there is agreement on the interpretation of the results, it is important that the publication of materials and results is controlled to protect the rights of all other participants. This is necessary, as the individual scheme results are presented *relative* to the market. However, it is the Trustees of schemes that will be the immediate users of the results, and this will benefit the members of the schemes.
5. Deloitte will prepare an industry report, but will give all participants a chance to comment on it before the final version is released. Where there is no agreement on particular matters, the industry report may not be published. All confidential information will be protected in the industry report.

Should you wish to participate, please sign the attached documentation and forward a copy to us on any of the numbers indicated below.

## **Contact details**

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#### **Deloitte AIS**

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## **Agreement to participate in an HQA study**

This letter (the "Agreement") sets out the terms and conditions under which Deloitte & Touche Actuarial & Insurance Solutions ("Deloitte & Touche") will provide certain services to \_\_\_\_\_ (the "client").

### **1. Services**

1.1 Deloitte & Touche will provide the Services set out in Schedule 1 (the "Services").

### **2. Fees**

2.1 The client shall pay fees for the Services at the rate and in accordance with the conditions set out in Schedule 2.

2.2 Deloitte & Touche will send the client invoices for fees at completion of the report mentioned in Schedule 1. Any invoice will be addressed to the client or any person the client notifies to Deloitte & Touche in writing.

2.3 All invoices are payable within 30 days of the invoice date. Where an invoice is not paid within 30 days of the invoice date, the clients agree to pay interest for late payment at a rate not exceeding 3% above the ABSA Bank prime rate, subject to the maximum rate permitted by the Usury Act.

### **3. Exclusive Use**

3.1 Any information, reports, opinions, results in whatever form ("Information") provided by Deloitte & Touche to the client under this Agreement shall be addressed to the client and are provided for the exclusive benefit and use of the client. The client agrees not to distribute or disclose, in whole or in part, such Information to any other persons without the prior written consent of Deloitte & Touche, or to use any Information for any purpose other than that specified in documentation provided to the client, save where the client is by law required to do so. This paragraph does not prevent the client from using the Information for the purpose of obtaining assistance and advice exclusively for its own benefit from its professional advisors.

3.2 Deloitte & Touche acknowledges that in certain circumstances the client may wish to disclose the Information to other Third Parties. Deloitte & Touche will agree to release copies of our final signed report to such Third Parties, subject to:

3.2.1 Deloitte & Touche's agreement that the named Third Parties may receive the report and;

3.2.2 Prior receipt of a signed release letter from the Third Party, of the form shown as Schedule 3 to this Agreement.

4. **Indemnity**

- 4.1 The client agrees that Deloitte & Touche's liability for any loss suffered by the client as a result of any breach of the terms of this Agreement by Deloitte & Touche or any breach of a duty owed by Deloitte & Touche to the client under the common law or statute shall be limited to fees incurred and paid. This limitation does not apply where the breach is as a result of wilful misconduct or gross negligence.
- 4.2 The client agrees to indemnify Deloitte & Touche against all liabilities which Deloitte & Touche may incur as a direct result of the failure of the client to comply with paragraph 3.

5. **Termination**

- 5.1 The client may terminate this Agreement at any time by giving written notice to Deloitte & Touche.
- 5.2 Upon termination of this Agreement the client will pay Deloitte & Touche all fees and reasonable out of pocket expenses, if any and as agreed upfront, incurred by Deloitte & Touche up until such termination.
- 5.3 The provisions of Clauses 3 and 4 of this Agreement will survive the termination of this Agreement.

6. **Confidentiality**

- 6.1 Deloitte & Touche will treat as confidential all information relating to and concerning the client whether in the form of reports, opinions or results provided by Deloitte & Touche to the client or in the form of information provided by the client to Deloitte & Touche. Deloitte & Touche may only disclose such confidential information if required in terms of law to do so.
- 6.2 The information provided to clients will contain specific results relating to the medical scheme options of the client, but will only show aggregated data for the rest of the industry. No client will see the results of any other client of Deloitte & Touche, and no client will be in a position to identify the specific options of other clients out of the information provided in the report to the client.
- 6.3 Deloitte & Touche will draft an industry report providing summarised information about the results achieved in the study. This industry report will be distributed to participants before release, and objections to what is contained in it may be made before it is released. The industry report will contain a list of participants, but the confidential information of all participants will be protected in the industry report. Participants will

have a week to raise any objections, which will then be taken into account and agreed upon for the final version of the industry report. Should it not be possible to reach agreement on the contents of the industry report, such a report may not be released, but if the client agrees, discussions may be held with the HQA Board to attempt to resolve any such differences.

6.4 Where the client requires information to be disclosed to other Third Parties as per paragraph 3, Deloitte & Touche will treat as confidential all information to and concerning the Third Party. Deloitte & Touche may only disclose such confidential information if required in terms of law to do so.

6.5 The provisions of this clause will survive the termination of the Agreement.

## **7 Data format and accuracy**

7.1 The client agrees that the information provided to Deloitte & Touche will conform to the format in which and specification to which data is requested by Deloitte & Touche, and that the client will ensure as far as possible that the data submitted for this project is accurate. Should data not be submitted timeously, Deloitte & Touche may at its discretion decide whether to still include the client in a particular project or not.

7.2 Should the client not provide data in the format required, or should there be material errors discovered in the data by Deloitte & Touche, the client may not receive a report and the client's results may not be included in the evaluation. However, if this occurs, and if Deloitte has spent time on the extraction and manipulation of such incorrect data, the client may still be invoiced for work performed by Deloitte & Touche in the extraction and checking of the data.

## **8 General**

8.1 This document constitutes the sole record of agreement between Deloitte & Touche and the client.

8.2 Neither Deloitte & Touche nor the client will be bound by any representation, warranty, promise or the like not recorded herein.

8.3 No addition to or variation or agreed cancellation of this Agreement will be of any force or effect unless in writing and signed by or on behalf of both of the parties.

8.4 No indulgence which either party (the "granter") may grant to the other (the "grantee") shall constitute a waiver of any of the rights of the granter, who shall not thereby be precluded from exercising any rights against the grantee which may have arisen in the past or which may arise in the future.

8.5 Deloitte & Touche will not be entitled to cede or assign any of its rights or obligations in terms of this Agreement without the client's prior written consent, which consent will not be unreasonably withheld.

**9 Domicilium**

9.1 The parties choose as their domicilia citandi et executandi and their address for all notices for all purposes arising from this Agreement, the following addresses:

Deloitte & Touche Actuarial & Insurance Solutions  
Building 8  
Woodlands Office Park  
Woodlands Drive  
Woodmead

The client:

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This Agreement and any dispute arising from our performance of our obligations arising from it shall be subject to South African law. The parties to this Agreement irrevocably agree that the Courts of South Africa should have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement.

We would be grateful if you could confirm your agreement with the terms of this Agreement (of which the Schedules are an integral part) by signing, dating and returning one copy to us.

**Signed for and on behalf of Deloitte & Touche**

Signature .....

Name (print) EMILE STIPP

Title (print) Partner

Date 28 January 2005

**Signed for and on behalf of the client:**

Signature .....

Name (print) .....

Title (print) .....

Date .....

## **SCHEDULE 1 - SERVICES**

This agreement covers the following services:

1. The drafting of a report for the client in accordance with the HQA methodology, as described in documentation provided to the client.
2. The client will receive at least the main report in any year (around July), subject to the provisions contained in par. 7 of the Agreement.
3. The client may also decide to participate in optional additional reports, prepared around September and December.

Where we believe that a further request for services falls outside the scope of the above, Deloitte & Touche will advise the client at the time of the briefing and will agree on a fee for any additional work requested.

Where there are particular problems with data, or if we get a large number of schemes participating, there may be delays in finalising the reports.

## **SCHEDULE 2 - PAYMENT OF FEES**

There are three fee arrangements relevant to this Agreement. All of the fees quoted below exclude VAT.

### **Membership fees**

Membership fees of R5 000 per year is levied by HQA. This will be invoiced by HQA and is payable directly to them.

### **Fees for the main report (June)**

Where data is supplied in the format requested: R10 000 per option per report.

Where data is supplied in raw format: R10 000 per option per report plus R60 000 data handling fee per scheme per report.

Where there are inaccuracies in the data and re-processing may be required, additional fees will be levied in agreement with the client.

### **Fees for optional additional reports (September and December)**

Where data is supplied in the format requested: R5 000 per option per report.

Where data is supplied in raw format: R5 000 per option per report plus R60 000 data handling fee per scheme.

Where there are inaccuracies in the data and re-processing may be required, additional fees will be levied in agreement with the client.

The above fees apply to 2005.

### SCHEDULE 3 - SPECIMEN RELEASE LETTER

Dear

We understand that [**Third Party name**] is to be provided with a [**report\results letter**] prepared by Deloitte & Touche entitled [**report\letter heading**] dated [**date**]. This report is referred to as 'the Report' in the remainder of this letter.

This report contains language prohibiting its distribution to third parties without the written consent of the Deloitte & Touche. This limitation was included for the following reasons:

1. The Report was prepared for our client's internal use and assumes a certain level of knowledge relative to the operation of the client, the data used in the Report and the external factors affecting the client. We would not expect a third party to have such knowledge.
2. Because of the limited intended distribution, we felt no need to expand the Report to include all background data in our possession since this data was obtained from the client and known to them. If the Report were written on behalf of a third party we would have felt a need for additional disclosure and would have written somewhat different documents.
3. As stated in the Report, we relied on the client for certain data without independent verification.
4. The Report provided advice solely to our client in accordance with their instructions.

We have no objection to releasing the Report to [**Third Party name**] (the "Proposed Recipient") provided that the Proposed Recipient:

- considers the Report in its entirety.
- acknowledges its awareness that Deloitte & Touche's consulting staff is available at the Proposed Recipient's own expense to answer any questions concerning the Report.
- acknowledges that the Report was prepared in reliance upon information provided by or on behalf of the client and on information from published sources, without independent verification.
- recognises that the Report was prepared for distribution to the client and agrees that, by accepting the Report, it will not distribute or otherwise communicate the Report (in whole or in part) to any other party without prior written consent of the Deloitte & Touche, which shall not be unreasonably withheld.

- agrees that the terms of this letter apply to any additional or supplementary information provided subsequently to the Report in whatever format, either in writing or orally.
- agrees that Deloitte & Touche are not providing the Proposed Recipient with any advice and shall have no liabilities towards the Proposed Recipient should the Proposed Recipient rely on the Report or data contained therein.
- agrees that any dispute arising from this letter shall be subject to South African law and that the Courts of South Africa shall have exclusive jurisdiction to settle any disputes which may arise out of it.
- signs and returns to Deloitte & Touche an acknowledgement copy of this letter evidencing its understanding and agreement with the foregoing.

Yours sincerely  
 for Deloitte & Touche  
 Actuarial & Insurance Solutions

***Recipient acknowledged***

By: ..... (Date)

(Signature)

.....  
 (Print Name)

.....  
 (Company)

.....  
 (Title)