



## CIRCULAR

Reference: Accredited and Other Administration Services  
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### CIRCULAR 77 OF 2019: CLASSIFICATION OF AND REPORTING ON ADMINISTRATION SERVICES - ACCREDITED vs OTHER ADMINISTRATION SERVICES

#### BACKGROUND AND PURPOSE

1. Circular 6 of 2019: Classification of and Reporting on Administration Services – Core vs Supplementary Services

Following the publication of [Circular 6 of 2019](#), dated 23 January 2019, on 5 February 2019, a number of stakeholders, including administrators, medical schemes and industry bodies commented on the proposed classification of, and reporting on administration services.

The comments received were analysed and carefully considered in preparing the final administration classification and reporting requirements incorporated in this document.

One of the more contentious concerns raised by stakeholders was the naming conventions, i.e. classifying administration services as either “core” or “supplementary”, which seemed to create the impression that “supplementary” services were not considered essential or superfluous. The CMS therefore decided to change the classification to “Accredited” and “Other” administration services to address this concern.

2. Purpose of the classification of and reporting on administration services

The Board of Trustees and Principal Officer are responsible for ensuring the effective and efficient administration of the medical scheme. They have a fiduciary duty to ensure that the interests of beneficiaries are protected at all times and that the scheme receives value for money in terms of agreements entered into.

The Council for Medical Schemes (CMS) has introduced various mechanisms over recent years in order to advance effective regulation of medical schemes and monitoring of the non-healthcare expenditure (NHE) incurred by schemes. The current statutory reporting of administration fees and/or costs is inadequate for the efficient monitoring of NHE as the lack of transparency does not allow for meaningful comparison of individual services between various administrators and schemes, as well as between medical schemes.

In addition, it is difficult to compare administration fees and/or costs between administrators and schemes at present due to, *inter alia*, the following differences in the schemes / benefit options administered:

- Size of the scheme / benefit options;
- Number of benefit options administered;
- Complexity of the benefit option designs;
- Demographics of scheme beneficiaries;
- Open vs restricted nature of medical schemes;
- Categories of administration services required by the schemes administered vs those provided by the schemes themselves, i.e. the basket of services is not standardised / uniform;
- Range and complexity of other services outsourced by schemes that are currently integrated with the administration services and/or system provided;
- Management of outsourced services contracts;
- No scientifically researched and justifiable costing benchmark per administration service; and
- "Composite" or global administration fee charged as opposed to a fee per service.

Taking into account the stakeholder comments received, the CMS, through the Accreditation and Financial Supervision Units, will introduce implementing measures to address some of the difficulties described above, through a phased approach. The overall objective is to enhance regulatory monitoring of medical schemes' cost containment and management abilities:

- Ø Phase 1 (short term) – Classification of and reporting on the "Accredited" and "Other" administration services per component.
- Ø Phase 2 (medium to long term) – Develop effective "Accredited" and "Other" administration service component benchmarking standards through research and industry consultation. This is in order to enhance the classification, reporting and introduction of an effective and meaningful analysis and comparison of cost structures.

## CLASSIFICATION OF AND REPORTING ON ADMINISTRATION SERVICES

### 3. Accredited Administration Services

#### 3.1 Regulatory framework –

The term "administration services" is not specifically defined in the Medical Schemes Act and Regulations at present. However, the CMS has attempted to comprehensively describe what would be considered to be administration services in the context contemplated in the Act and Regulations in the following documents (available on the CMS website – [www.medicalschemes.com](http://www.medicalschemes.com)):

- “Requirements for administration of medical schemes”;
- [“Accreditation Standards for Third Party Administrators of Medical Schemes – Standards and Measurement Criteria, Version 6](#) (the same standards are applied to self-administered schemes, save for a few that are not applicable to the self-administration environment)”;
- “Guideline for the preparation of administration agreements in compliance with Regulation 18 and the administration standards”; and
- [“Circular 48 of 2014](#): Classification and disclosure of administration costs included in the contracted third party administration fees”.

### 3.2 “Accredited” administration services –

“Accredited” administration services should be clearly defined and provided for in separate agreements between schemes, administrators and other providers.

The CMS considers “Accredited” administration services are those comprehensive services required for the effective and efficient administration of a medical scheme, and any organisation providing such services would need to be accredited as an administrator in terms of Section 58.

“Accredited” administration services provided to medical schemes include the following (refer to the latest version of the Administrator Accreditation Standards for a detailed description of the services):

- i. Member record management;
- ii. Contribution management ;
- iii. Claims management;
- iv. Financial management;
- v. Information management and data control;
- vi. Broker remuneration management; and
- vii. Customer services.

## 4. “Other” administration services:

4.1 “Other” administration services are those services that are provided in addition to the “Accredited” administration services in support of the administration and effective management of the scheme. “Other” administration services, whether provided by accredited third party administrators or other providers, should be clearly differentiated and provided for in separate agreements (per provider).

4.2 The following services are considered to be “Other” administration services (note this is not an exhaustive list):

- i. Actuarial services, e.g. –
  - Monthly / annual IBNR (Incurred but not received) claims provisions;

- Contribution review and recommendations; and
    - Benefit option design review and recommendations.
  - ii. Benefit management services (which are not classified as managed care services as defined (refer to Circular 13 of 2014)) – e.g. outsourcing of optical claims management to another entity.
  - iii. Internal audit services - Good corporate governance must be implemented by the scheme; the scheme should appoint internal auditors to independently evaluate the effectiveness of the scheme’s policies and operations.
  - iv. Distribution services – these must be clearly differentiated from marketing (separate supplementary administration service) and broker remuneration management (core administration service). Distribution services are defined as broker management and support services, which may include broker performance management, broker training, broker query support and similar services.
  - v. Broker services as defined in the Act, provided by:
    - Accredited brokers; and
    - In-house sales and marketing services.
  - vi. Marketing services, e.g. –
    - Related to general marketing material of the scheme, e.g. general benefit option comparative guides.
    - Market research;
    - Marketing strategy development and/or implementation;
    - Advertising;
    - Sponsorships and promotions;
    - Search engine optimisation; and
    - Social media.
  - vii. Third party claim recovery services (e.g. Road Accident Fund claims)
  - viii. Forensic investigations and recoveries. This service differs *from Prevention and detection of fraudulent and irregular claims* (core administration service) as it evaluates on an *ad hoc* basis the validity of claims already processed and paid.
  - ix. Governance and compliance, e.g. –
    - Secretarial services;
    - Compliance Officer services;
    - Information Officer services.
5. Contracting and reporting regarding “Accredited” vs “Other” Administration Services “Accredited” administration services –

- 5.1 Each of the “Accredited” administration services must be clearly defined and separately priced in the administration agreement between the scheme and the administrator. Schemes are required to report the “Accredited” administration fees paid per individual service component and in aggregate on the statutory returns and annual financial statements; and
- 5.2 Administrators must report the revenue / income derived from each “Accredited” administration service component separately in their annual financial statements (whether on the face of the Income Statement / Statement of Comprehensive Income or in the Notes to the annual financial statements).
- 5.3 “Other” administration services –
- “Other” administration services must be clearly defined in separate contracts per provider.
  - In order to protect the interests of beneficiaries of medical schemes it is recommended that the agreements between schemes and providers of “other” administration services contain at least the following provisions:
    - The contracting parties should be clearly defined;
    - The commencement date and duration of the agreement should be specified;
    - The services contracted for must be clearly defined and must be separately priced;
    - The basis on which the fee(s) are calculated and paid;
    - The manner of dealing with complaints and dispute settlement amongst the parties;
    - The termination process and notice period;
    - Breach of contract;
    - Notices & domicilia; and
    - A detailed service level agreement per service provided which details the service levels as well as the relating performance measurement criteria.
  - Schemes will be required to report “Other” administration fees paid per individual component per entity in the statutory returns and annual financial statements; and
  - Administrators (who provide “Other” administration services in addition to “Accredited” administration services) will be required to report the revenue / income derived from each service component separately in their annual financial statements (whether on the face of the Income Statement / Statement of Comprehensive Income or in the Notes to the annual financial statements).

## 6. Self-administered schemes

- 6.1 Self-administered schemes should break down the cost of administration in terms of the “Accredited” and “Other” services provided in-house in a similar manner as described above. CMS takes cognisance of the fact that this might be more complex in terms of reporting thereof – e.g. allocating staff costs and administration system costs to the appropriate administration component vs reporting it as a line item on the income statement. The Financial Supervision Unit will further engage with self-administered schemes in developing the statutory return reporting functionality in 2020/2021.
- 6.2 “Accredited” and “Other” administration services in respect of risk transfer / network options –  
Where a medical scheme contracts with an administrator to provide “Accredited” administration services in respect of a risk transfer or network option, or where the scheme renders the administration services themselves, the “accredited” administration fees / costs may be limited to member record management, contribution management and financial management. In some instances, broker remuneration management might also be included. The administration fees / costs must be classified and reported on as indicated in

sections 3 to 5 above. The differentiating factors between such options and other non-risk transfer / non-network options will be taken into account with the future development of the administration component benchmarking standards.

## 7. Implementation timelines

	Process	End date
1.	Final classification, contracting and reporting requirements circular published.	Early November 2019
2.	Administration standards, administration agreement guidelines, and other CMS related documentation updated.	30 November 2019
3.	New "Accredited" and "Other" administration services and service level agreements to comply with the requirements.	With effect from 1 January 2020
4.	Existing "Accredited" and "Other" administration services agreements at 31 October 2019 – <ul style="list-style-type: none"> <li>• New "Accredited" and "Other" administration services and service level agreements to be redrafted / amended in accordance with the requirements.</li> </ul>	31 December 2020
5.	SAICA scheme accounting guideline to be amended	31 December 2020
6.	Reporting in line with the new classifications / agreements in the scheme statutory returns and administrator AFS	With effect from 1 January 2021
7.	Administration service component benchmarking standards – research and development to commence during 2020.	Estimated - 2022



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