ThinkingAloud

If a new player disrupts the rules, maybe it's the rules that need to change

The regulator's job is to look at the potential for good in a new player

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Pity the regulator today.

He inherited a system at the peak of its success, with rules carefully thought out. He thought his role was to implement and enforce rules.

Then things change. Disruptive technologies change the industry and new players enter the market. Unhappy incumbents want to deny the new players access to funding or infrastructure they had paid to build, and hold the regulator to the rule-book.

Meanwhile, consumers clamour for choice and diversity at ever declining prices. Citizens who once trusted the state to preserve a stable status quo now question its impartiality and ask whose side it is on.

Across different sectors, the chaps in government whose job is to come up with rules for industry are facing a hard time.

In transport, the entry of Uber and other car-sharing apps turns owners of private cars into chauffeurs for a fee. Taxi companies are unhappy, but consumers are delighted – they get a chauffeured private car service for a fee about equivalent to or less than for taxis.

The Land Transport Authority is now looking at these issues.

Next, consider the infocomms sector. The three telcos – Singtel, StarHub and M1 – have settled into a cosy equilibrium, and some say they act like a cartel.

The entry of new broadband players had shaken up that industry. Why not open the mobile market to new players too? This was the thinking behind the call for a fourth mobile operator.

Last July, the Infocomm Development Authority (IDA) came up with a novel proposal: It would set aside mobile spectrum at a heavily discounted rate to attract a fourth telco operator. It called for public feedback on its proposal.

At least two companies – MyRepublic and OMGTel – expressed interest. But the three incumbents objected. They said a fourth player would lead to congested airwaves which would be bad for consumers.They questioned IDA's rationale for subsidising the newcomer.

IDA hasn't firmed up its decision.

The cases illustrate the conflicting demands that today's regulator must take into account. Regulation has never been easy, but is especially complicated when technology is changing so fast, and disrupting markets in such unexpected ways.

Regulators should be guided as always by a clear-headed assessment that balances different objectives: protect investors; protect consumers; promote competition; and promote efficiency. It's clear from even a cursory look that the objectives are conflicting – protecting investors for example can be very bad for consumers.

To do their jobs well, regulators have to shift from thinking of regulation as setting rules, to thinking of managing risks.

Rules will still be needed of course – but should be construed not as something that prevents bad things from happening but as something that allows good things to happen.

Transport regulators, for example, shouldn't be thinking of rules to box Uber in or how to make sure it doesn't harm consumers or the market. They should be thinking of rules that can help unlock the tremendous potential of car-sharing apps to improve our transport system, in a way that is good for consumers and fair to incumbents.

I am fairly sanguine that when it comes to industry and economic issues, Singapore's regulators will be able to shift from rules to risk, and will tend towards decisions that promote competition and efficiency. The pro-enterprise, open-minded DNA runs deep in the public sector's economic agencies.

It will be a greater challenge for our social regulators, brought up in decades of parsimony, to rethink their role. They shouldn't see themselves only as guardians of the public purse. Instead, those who control social funding should develop the instinct of venture capitalists looking to support deserving social innovation.

Take the Ministry of Health's (MOH's) refusal to give subsidy funding for a nursing home for dementia patients. The Jade Circle project by Peacehaven, the Lien Foundation and Khoo Chwee Neo Foundation wanted to offer dementia patients a different kind of setting. Instead of living in dormitory-style wards with six to eight beds each, patients would live in single or twin-bed rooms with attached bathrooms, clustered around a living room. Medical research shows that dementia patients are less disoriented and happier in settings that resemble a family home, than in an institutionalised, regimented setting.

MOH, however, declined to provide subsidies for such beds, saying: "As a matter of policy, it will be difficult for MOH to provide ongoing subsidies for patients staying in wards that are designed to proxy private or A-class ward configurations such as single or double-bedded rooms only. Such parameters will be hard to scale or to be financially sustainable, if applied to the rest of the aged care sector."

The decision seems to spring from a reflex that subsidies should be used for the indigent or the very poor. This very stringent view of what merits subsidies is outdated, even by Singapore's own tight-fisted standards. Public housing subsidies extend even to high-income young couples who can fork out $1 million for a unit in executive condominiums that come with swimming pools . Healthcare subsidies for intermediate and home care cover households that earn more than the median income.

I find it perverse in the extreme that the ministry would deny an operator subsidies for offering a higher level of healthcare. Imagine the Ministry of Education telling independent schools that since they offer "premium" education, it will withdraw the subsidy it gives to every student's education.

Rather than say No Subsidy to the new entrant, MOH should take the opportunity to relook its entire financing model of allocating subsidy levels by the class of hospital ward.

Does such a system encourage over-usage of subsidies by those who can afford to pay non-subsidised rates? My colleague Salma Khalik reported last July that more patients are choosing subsidised wards. In 2000, 26 per cent of all public hospital patients opted for C class wards, which enjoy subsidies of 65 to 80 per cent. In 2014, 46 per cent did so. It might be time to tweak a system that results in such skewed behaviour.

Then there is MOH's argument that subsidising single or twin-bed rooms isn't scaleable and is hard to justify financially.

Contrast this with the Ministry of Social and Family Development's (MSF's) position on group homes for seniors. MSF set up senior group homes in 2012 to let the frail elderly age in place – in Housing Board rental blocks.

Each HDB flat is shared by two to three frail seniors – which means each room has one or two beds. Five to eight such flats form a cluster. For these clusters, voluntary welfare organisations funded by MSF will coordinate and monitor services for the seniors such as home care, rehabilitation services and social activities.

Unlike MOH, MSF chooses to allocate subsidies to the needy person who needs it, not the place or room where he is receiving care. It is also not afraid to experiment with new care models. And what can be more scaleable and sustainable than letting people age in their own homes, with some support? Surely not the building of massive institutionalised nursing homes with large dormitory rooms.

As for financial justification, if IDA is prepared to subsidise a telco's entry into a market worth hundreds of millions a year, it is hard to understand MOH's reluctance to give subsidies to a new entrant in the nursing home market trying out a new model of care.

Bear in mind that the new home isn't asking for additional subsidies. It is merely requesting the same level of subsidies for its needy patients as the nursing home that packs the elderly 20 into a room.

Bear in mind too that global research suggests this new care model would be good for patients – and hence good for the healthcare system, if patients remain well and avoid the need for acute care.

Whether it's LTA, IDA or MOH, the regulator's job isn't to protect the current model or the big incumbents. Nor is it to impose rules to limit the harm that a new entrant may bring. Instead, the regulator should look at the potential for good in the new player. And if existing rules don't fit, maybe the problem is with the rules, not the new player.

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