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DEMARCATIION – OBJECTION TO PROPOSED SHORT TERM INSURANCE CHANGES

1. Accessibility and Access to purchase

One of the concerns raised in the commentary and the objectives of the proposed Health Insurance amendments is that the regulator has an issue that insurance products have premiums that are related to age and/or health status or income levels of an individual.

It is very important to note that there are a large number of “stated benefit” insurance products that have no limitations related to age and or health status. For example all the DENIS Accident and Emergency and Dental policies are sold to anyone, at a premium that is not linked to health status or age.

This is a very important principle and concept as the commentary on the proposed Health Insurance amendments implies that the above is a concern in all ‘stated benefit’ policies. We therefore want to formally put on record that this is not the case. Secondly the regulator needs to distinguish products that do risk rate clients vs. those that do not. This will allow a more informed approach in dealing with each of these categories.

RECOMMENDATION:

We propose that policies that do not distinguish on any basis in terms of risk rating members should be allowed under the new amendments as these do not limit cover to only the fit and healthy – they cover everyone.

2. Principles of Medical Schemes

In the commentary on the premiums paid in the medical schemes environment it is put forward that “Contributions apply universally to all members who are enrolled and may only vary in respect of the cover provided. Different benefits options are priced differently depending on the level of cover afforded and are determined by the rules of the scheme. The effect is that there are equal premium contributions for high and low risk members, which promotes greater equity in the scheme.”

The assumptions that there is equal premium contributions for high / low risk members in the medical schemes is not correct as young healthy members buy down to hospital cover only. That leaves a higher risk unsustainable risk pool of members. This is a fundamentally flawed approach and by its nature makes medical schemes unsustainable



in their current form. The problem with comprehensive medical aids is that the monthly contributions are largely unaffordable. The healthcare model and medical aids in particular are therefore unsustainable even with a risk equalisation fund in place to offset this risk.

Where medical aids can play a vital role is in the prescribed minimum benefit area, as this is a basic set of benefits that applies equally across all medical aids.

RECOMMENDATION:

We would recommend that medical aids primary focus should be on covering prescribed minimum benefits. Thereafter members should decide on appropriate cover that is relevant to their own circumstances (both via the medical aid as well as insurance products). By allowing Comprehensive options as well as more basic Hospital Plans, medical aids inherently allow members to arbitrage the risk vs. premium by allowing them to select an option in a way that makes healthcare funding via a medical aid unsustainable.

3. Overseas Experience

Overseas the viability and value of insurance and related health insurance products is tested and accepted as the norm. These products are purchased by consumers and become successful based on free market forces of delivering value to the customer. We should allow the same free market forces to guide our regulatory environment to ensure that consumers have a free choice when deciding to purchase medical aid or healthcare insurance. The consumer should ultimately decide which market and which products are successful based on the specific value the product provides.

RECOMMENDATION:

We recommend an open regulatory framework that allows both medical aids and health insurance to thrive, with consumers making a decision on what products provide them with the most value. A medical aid with prescribed minimum benefits should then be compulsory for all citizens to ensure basic healthcare services are provided.

4. Loss of Membership from Medical Aids

One of the concerns raised in the commentary on the amendments is the perceived issue that health insurance is providing a mechanism for younger and healthier members to leave medical schemes and therefore threaten the viability of the medical scheme.



The issue of declining medical scheme membership is complex and multi-dimensional. It is not a simple matter to resolve. Some of the factors that are affecting the decline medical aid membership are the following:

- The issue of lack of affordability is real. Medical aid contributions are very high relative to the average salaries and wages earned. Therefore a large portion of the population cannot afford basic medical aid cover. Insurance cover provides a viable alternative to these members as they can enjoy cover for stated benefits, at a lower premium, and at least have some form of health cover in place. As opposed to relying totally on state healthcare services. By removing stated benefit insurance the additional costs onto state facilities is going to be huge.
- The lack of jobs and job creation initiatives in the economy creates a larger welfare state and also limits a viable and thriving medical aid market. The root cause of this is the lack of job creation opportunities. As the economy continues through the recession companies may retrench workers worsening this situation. If job can get created this situation will reverse itself. When worker do get retrenched they most likely will no longer be able to afford their medical aids. Again basic insurance products fill this niche.
- The value for money provided by a medical aid also needs to be evaluated. Unless a member is on a full comprehensive medical aid, they are not going to have full medical cover. The question then arises how is the member going to provide for this shortfall? The reason why comprehensive medical aids have limited membership is that the costs are exorbitant and unaffordable. There is therefore a real need for members to be protected and covered for a broader range of healthcare services. Members out of free choice buy health insurance products to supplement the medical aids. We respectfully content that this is the only sustainable approach to this and that consumers should be given the free choice to continue to make these insurances purchases. If medical aids covered all eventualities then these additional products would not be required and no one would buy them. It is therefore likely in the above situation that members leave medical aids as the value for money provided is not good and they always have a significant financial shortfall when making medical aid claims.

RECOMMENDATION: We therefore recommend that consumers are provided with free choice to provide for their healthcare needs by buying both medical aids as well as health insurance. If members are not allowed to buy insurance cover for this, the burden of providing for this shortfall is going to fall onto the



state to provide. This too is unsustainable and will result in significantly increased public healthcare costs.

5. How do regulations address the market challenge

Medical schemes provide for less than 8 million lives in South Africa. If one looks at the overall population and size of the market then the regulator should not try and artificially benefit a specific sector. It would be preferable for the regulator to make sure that both the medical aid and insurance markets work to ensure that 50 million South African can achieve healthcare coverage. The link about insurance products threatening medical aids is an assertion. Respectfully we would content that this is not proven and in fact the provision of health insurance may provide very meaningful cover to South Africa that if it was not there would fall onto the state healthcare system to provide for this.

RECOMMENDATION: We therefore respectfully believe that an approach of not allowing both medical aids and insurance to provide vibrant and innovative offerings will cause higher healthcare costs as we stifle long term innovation.

6. Advertising

We support and agree to the points raised about clear advertising on the health insurance vs. medical aid offerings. The principles of complete transparency and a code of conduct for advertising standards should be introduced.

7. Which products will be allowed

In terms of the commentary it is stated that "Products which provide for policy benefits relating to actual medical expenses associated with a health event and unambiguously constitute the business of a medical scheme are deemed harmful to the medical scheme environment and therefore will not be exempted in terms of the Demarcation Regulations."

What this does not cover is the issue that medical aids by their very nature only cover certain medical events. For example Dentistry is an area that is not covered on most medical schemes except top comprehensive options. For the rest it is either not covered or it is paid from savings accounts. As dental costs can be very expensive 1



visit to the dentist can deplete the family savings balance for the year. To outlaw dental health insurance plans therefore deprives the public of having appropriate cover for their dental benefits. Especially as dental is not covered under most medical aids.

RECOMMENDATION: We respectfully assert that the above broad strokes of classifying products into medical aids and then selected categories per the matrix is flawed as it does not address the specific details of all of the procedures that are not covered by medical aids. By default then members are deprived of any cover. Again this will ultimately then fall onto the public healthcare system to fund. We therefore request that far more clarity is provided specifically around services that are not covered by medical aids. All of these areas should then be allowed to be covered by Health Insurance. Again – consumers will only buy either medical aids or health insurance products that provide good value for money.

3. The unique nature of Dental benefits

Unlike mainstream health cover provided by medical aids, dental cover is severely limited. This is the norm world-wide because of the high level of non-health related treatments offered by the dental profession. Non-health related treatment is intertwined with essential treatment and is sometime almost indistinguishable. However, real dental health problems affect about 30% of the population every year and because of the lack of benefit in medical aid due to the above mentioned reason, many people are forced to pay for this essential treatment themselves.

Insuring dental health is a highly specialised area usually focussed outside the general health expertise of medical aids, social health systems or medical insurance. Current legislation in South Africa does not permit dental to be covered in a standalone format in medical aid so the only frame work currently available for real insured dental benefits is short term insurance.