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# Rodney Stein Financial Services cc

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23 April 2012

## **Objection to The Draft Health Insurance product and medical scheme demarcation regulations with specific reference to the outlawing of gap insurance and top-up products**

I write this objection in my capacity as a medical scheme adviser with approximately 700 medical scheme clients of which 200 own gap cover policies. Ideally I would like all my clients on gap cover as it would give me peace of mind knowing they have the best cover possible in the event of a major medical event. Specialists in a large percentage of instances, charge more than the tariffs that all medical schemes are prepared to pay (this is regardless of the plan) and the only protection an individual has is gap cover.

In light of my above statement I am shocked that the draft regulation outlaws gap cover products. The joint explanatory memorandum issued on 16 April 2012, states that "gap cover compromises the principles of social welfare, solidarity and cross subsidisation found in medical aids".

This is simply not true, it is a false assumption which I am not convinced is backed by adequate empirical research and would therefore be a weak hypothesis arrived at by conjecture.

My personal experience is that individuals do not buy down on their medical scheme because of the availability of gap cover. They buy down because they simply can no longer afford the medical aid premiums on plans that have a higher in hospital coverage. In fact most gap cover that we have sold, is to individuals who were on the lower plans long before they heard of gap cover.

In my experience, gap cover is purchased by all individuals, young and old, healthy and ill who are on the full spectrum of medical plans. The fact that most gap cover plans align their joining criteria with the criteria set out in the medical schemes act, means that almost any person can join gap cover and only be subject to the restriction they would normally face if joining a medical scheme for the first time (the only exception to this statement would be age limits).

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The fact of the matter is that gap cover is needed regardless of which medical plan you are on. No matter the plan you always run the risk of claim shortfalls. The less well-off need gap cover because they cannot afford to be out of pocket in the event of a medical procedure. The well heeled take out gap cover because they do not like to be out of pocket.

Given the high risk of a shortfall on hospitalisation only the rich can afford not to be on gap cover, I am shocked that the government is supportive of these draft regulations which is essentially a pro-rich law.

The reason I say this is:

1. Only the well-off can afford a medical scheme with the best cover (and even they will experience claims shortfalls)
2. The less well-off have to opt for plans with lower coverage and therefore have a higher risk of shortfalls
3. In the event of a shortfall the rich can afford to pay shortfalls without a problem and the ordinary man on the street has to struggle to do so and often goes in to debt to settle the liability

Surely this is not the objective of these regulations? But I am convinced that this would be the result.

Medical schemes are becoming expensive and it is very difficult for them to balance their books annually due to high medical inflation, resulting in large premium increases and reduction in benefits to members. I agree that for the good of all this has to be resolved, but the answer is not in the banning of gap cover.

The advantage of gap cover is that it is a fiercely competitive market and therefore premiums have remained affordable and cost efficient for a number of years, for the benefit of the consumer (unlike medical schemes, benefits have actually increased over the years not decreased).

The banning of gap cover is going to place those members of medical schemes earning between R5000 and R15000 per month at dire financial risk. Any medical claim shortfall would cause people in these earning brackets substantial financial stress. On average the gap claims experience in our practice is R5000 per claim, one third of one month's salary of an individual who earns R15000 per month and one hundred percent of an individual who earns R5000 per month.

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I have recently had an incident where a client who is a member of Discovery's classic comprehensive plan (a very expensive plan) which pays at twice the Discovery health rate has to have a procedure, the specialists quote is +-R25000 and Discovery is only prepared to pay approximately R11000 based on their rules. This shortfall would have been covered in full by gap cover which the client does not have. I do not understand how this client (who is normally a very healthy client), would have compromised the medical scheme had he had gap cover. He will take out gap cover now and is not planning on buying down his plan.

As a broker, from anecdotal experience the general insured public is very disgruntled with medical schemes because of their high annual increases and regular reduction in benefits. I do understand that were it not for the medical scheme council and a strong medical schemes act and regulations this situation would be far worse and for this reason I am very proud of our country. However I strongly believe that the existence of gap cover has no impact on the viability of medical schemes and that the outlawing of gap cover will result in undue hardship for many thousands of members of medical schemes.

Please give consideration to my request to remove the proposed ban on gap cover, in the interest of all medical scheme members in South Africa.

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