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TOTAL RISK ADMINISTRATORS

SUBMISSION TO THE NATIONAL TREASURY:

THE DRAFT REGULATIONS PUBLISHED FOR PUBLIC COMMENT IN TERMS OF THE SHORT-TERM INSURANCE ACT NO. 53 OF 1998, (GOVERNMENT GAZETTE 35114), DATED 2 MARCH 2012

Addressed to:

PER E-MAIL: STdemarcation@treasury.gov.za

Date of submitting:

Before 2 May 2012

Submitted by:

Total Risk Administrators (Pty) Ltd ("TRA"), an authorised financial services provider (FSP No 40815)

TRA has considered the proposed draft Demarcation Regulations published by the Minister of Finance on 2 March 2012 and hereby submit our comments for consideration.

The following legislation was acknowledged in preparing this submission:- The Short-term Insurance Act, 1998 ("STIA") including the regulations promulgated thereunder; The Medical Schemes Act, 2008 ("MSA") including the regulation promulgated thereunder; The Promotion of Administrative Justice Act, 2000 ("PAJA"); The Constitution of the Republic of South Africa, 1996 ("the Constitution")

BACKGROUND AND PRODUCT INFORMATION

Total Risk Administrators (Pty) Ltd "TRA" is an authorised financial service provider, FSP No 40815. We market, through an existing network of brokers, a gap cover product known as the Total Care Gap Cover product, which has been designed to protect medical aid members from additional unbudgeted costs during hospitalisation. Although most medical aid schemes cover hospital costs at 100% of the applicable medical aid rate, the member is often left with a substantial shortfall in costs relating to specialist, surgeon, anaesthetist and other provider services. The benefit of the Total Care Gap Cover product is that it provides cover on service provider charges in excess of the recommended medical aid rate with a defined upper limit of 4 times this rate.

TRA provides cover to some 25 258 principal members and 46 334 beneficiaries. Average annual premium per member per month for 2011 was R85. Total claims paid for the period (2011) R20 055 799.00.

GENERAL COMMENTARY ON DRAFT DEMARCATION REGULATIONS

1. It is our understanding that a consultative process with SAIA representatives was undertaken (over a lengthy period i.e. from October 2008) and that this process was subjected to confidentiality agreements hence excluding the majority of the short term industry. We believe that this approach was not in the best interest of the industry and its underlying policyholders i.e. the consumer.
2. We further believe that the short period of time to comment on the proposed draft regulations is unjust specifically in terms of the seriousness of the implications they have on the industry and underlying policyholders'.
3. TRA is concerned that due to point 1 above the department may be missing factual information pertaining to TRA's gap cover offering.
4. TRA recently participated in a market survey with the view to verify the facts surrounding consumers' / **government's perceptions** of health care cover (with specific reference to gap cover). The findings confirm / verify the following misconceptions:
 - a. The majority of respondents (84%) did not downgrade their medical aid options after taking out Gap Cover insurance.
 - b. 96% of respondents indicated that Gap Cover insurance provides them with peace of mind and also allows them to remain on their current options.
 - c. 77% of respondents indicated they would have to go into debt to pay for uncovered hospital costs, while 35% indicated they would have no way of paying for uncovered hospital costs.
 - d. 75% of respondents indicated they would battle to afford to upgrade to a higher option if Gap Cover were to be removed. The simple truth is that very few medical schemes provide fully comprehensive cover for in-patient specialist care, even at the highest benefit option. **This means that members potentially face large shortfalls between their medical scheme benefits and the actual costs incurred for surgery or other in-hospital treatment.**
 - e. Most importantly, the majority of policyholders interviewed DO NOT perceive Gap Cover to be a replacement for a registered medical aid scheme, but a vital enhancement to cover the gap between scheme tariff and provider costs.

SPECIFIC COMMENTARY ON DRAFT DEMARCATION REGULATIONS AS THEY RELATE TO THE TOTAL CARE GAP COVER PRODUCT

1. December 2008 – Our interpretation of the draft Regulations is that products that commenced operation before the 15th December 2008 are exempt from the provisions of the draft regulations. Our Total Care Gap Cover product has been operational since 1994 and it is our view that this product falls outside of the intention of the draft Regulations.

2. No premium discrimination – The premiums paid over to the Total Care Gap Cover product are not based on a policyholder's state of health. All policyholders pay the same premium according to their choice of cover. **Furthermore, premiums are not based on age or income and no premium discrimination is made in this regard.**
3. Driving medical scheme members away – All policyholders have to be members of a registered medical aid scheme. In this way we are sure that policyholders have no incentive to cancel membership of a registered medical scheme. **This specifically counteracts the perception that young and healthy individuals are replacing registered medical aids with healthcare reinsurance products.** This also ensures that their respective medical schemes have fulfilled their obligations in terms of the benefits offered to members. This, furthermore, guarantees that the Total Care Gap Cover product will never perform the business of a medical aid as the benefits provided are not available from their respective Schemes.
4. Prescribed Minimum Benefits - The Total Care Gap Cover product excludes any PMB claims as this is the responsibility of a policyholder's medical aid. TRA products therefore fully support the DOH and CMS initiative to regulate medical schemes to provide consumers with coverage, at cost, of the list of PMB's.
5. Price regulation - Due to the interference of the Competition Commission in the regulatory relationship between the DOH and service provider organisations, the establishment of a reference price structure for healthcare services is non-existent. In the absence of such price regulation, it is evident that certain service providers have embarked on a campaign to collect as much income as possible via consultative and treatment costs, particularly PMB's. This current aggressive pricing mechanism is forcing consumers to look for extra cover. Many schemes still do not cover PMB conditions at cost.
6. Policyholders cannot buy up – The vast majority of our policy holders are unable to buy enhanced medical aid cover to provide further benefits due to the following reasons:
 - a. Unaffordability
 - b. Their benefit options do not provide cover above 100% of medical aid rates.
7. Consumer protection – Our claims records will show that a number of policyholders have been the recipient of refunds resulting from 14568 successful claims made against the Total Care Gap Cover product over the last three year. These have ranged from as little as R100 to R108 813.53 These members, typically, have had no other products available from their medical aids and have benefitted from their Total Care Gap Cover policy.

Below is a summary of the top 30 claims that have been paid out according to this policy. It is extremely important to note that these members enjoy a hospital benefit equal to 100%

of scheme rate, i.e. this is the top option offered by their scheme and they are unable to purchase a superior level of cover from their scheme. The question that begs to be asked is this: **How would these members have afforded to honour their obligations to the service providers involved in these hospitalisation events if the draft Regulations were in force?**

Incident Number	Number Of Claims	Amount Claimed	Tariff Amount	Amount Paid by Gap Cover
355	448	R 605 687.52	R 497 687.86	R 108 813.53
9609	327	R 739 151.86	R 653 002.62	R 92 370.40
11516	168	R 366 572.29	R 273 236.72	R 70 391.08
360	181	R 359 006.83	R 293 816.78	R 65 479.86
12602	76	R 117 977.06	R 53 039.36	R 64 798.35
4035	151	R 365 222.27	R 311 740.23	R 59 756.32
5974	194	R 687 057.06	R 638 143.68	R 57 631.15
3313	41	R 94 816.28	R 29 341.78	R 54 122.72
11994	118	R 267 904.35	R 228 148.73	R 45 799.21
12401	88	R 648 428.24	R 605 417.36	R 43 030.28
405	144	R 251 044.09	R 209 828.77	R 42 344.87
8824	140	R 403 210.37	R 362 031.71	R 41 561.19
11909	400	R 661 094.80	R 621 769.76	R 41 334.37
9021	131	R 201 650.49	R 162 449.63	R 39 961.26
11468	111	R 172 336.91	R 129 233.41	R 39 467.28
5973	366	R 667 369.31	R 595 500.04	R 39 344.23
4047	82	R 215 017.51	R 183 902.46	R 38 159.68
3250	85	R 196 416.66	R 160 608.85	R 37 640.01
7696	38	R 161 168.58	R 125 088.71	R 36 106.17
1956	43	R 197 755.70	R 160 810.42	R 35 383.83
1162	288	R 385 517.68	R 349 749.76	R 34 730.95
6850	98	R 327 193.24	R 290 505.20	R 33 660.86
8530	23	R 87 560.88	R 54 707.32	R 32 853.56
6606	103	R 88 434.97	R 55 780.17	R 32 437.13
11243	9	R 50 967.49	R 19 097.02	R 31 870.47
3962	53	R 118 892.41	R 86 332.44	R 31 869.21
6550	65	R 136 791.73	R 105 157.76	R 31 655.11
4830	64	R 345 261.49	R 315 799.40	R 29 533.12
5644	71	R 1109 340.99	R 435 569.68	R 28 414.82
12267	178	R 208 019.70	R 179 970.32	R 28 213.28

In summary, we believe that the intention of the draft Regulations is to weed out those health reinsurance products that definitely are performing the business of a medical aid and which we applaud.

However, the Total Care Gap Cover product does not replace a medical aid - the member has to be on a medical aid to qualify, there are no age or health loadings, no scheme benefit top ups are covered, no co-payments are covered. We provide pure gap cover of in-hospital-benefits where the majority of schemes that our members belong to, have a standard hospitalisation benefit equal to 100% of scheme tariff and these members have no other option but to belong to a product like the Total Care Gap Cover to pay for their in-hospital provider shortfalls.

Finally, and with due respect given to the current regulatory bodies behind the draft Regulations, we submit that the **Total Care Gap Cover product is fulfilling its role of providing consumers with the peace of mind knowing that the huge costs associated with hospitalisation, specifically the shortfall after 100% medical aid cover, will be taken care of.**

We trust that you will share this view.

Yours faithfully