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OLD MUTUAL

Health Solutions

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Submission by MS Life Assurance Company Limited and Old Mutual Health Insurance Limited on the Proposed Amendments to the Regulations issued in terms of Sections 70 & 72 of the Short-term and Long-term Insurance Acts of 1998

Submission to the National Treasury by MS Life Assurance Company Limited and Old Mutual Health Insurance Limited on the Proposed Amendments to the Regulations issued in terms of Section 70 and Section 72 of the Short-term and Long-term Insurance Acts of 1998

Introductory Remarks

MS Life Assurance Company Limited and **Old Mutual Health Insurance Limited** (hereinafter collectively referred to as Old Mutual Health Solutions -"OMHS") form part of the Old Mutual group, which is proudly South African and has served citizens of South Africa for the past 167 years. Old Mutual's vision is "To be our customers' most trusted partner - passionate about helping them achieve their lifetime financial goals."

The future viability and sustainability of the Private and Public Healthcare Sector is in the interest of all South Africans and OMHS supports the transformation of the South African healthcare industry and the introduction of a National Health Insurance (NHI) financing system that will ensure the provision of essential healthcare for all South Africans.

Whilst we appreciate that the Proposed Amendments to the Regulations issued in terms of the Short and Long-term Insurance Acts are aimed at providing a clear demarcation between the Health Insurance and Medical Scheme Sectors, OMHS holds the view that the interpretation of the principles underpinning the Proposed Amendments requires further rigorous debate.

Input on Proposed Amendments

OMHS supports the principles of community rating, open enrolment and cross-subsidisation listed and detailed in the Explanatory Memorandum to the Proposed Amendments to the Regulations of the Short and Long-term Insurance Acts published on 2 March 2012. OMHS's appreciation of the demarcation between Accident and Health Policies and the Medical Schemes Act has formed the basis of the principles underpinning the design of our Accident and Health products that fall within the Proposed Amendments.

OMHS believes that the challenges facing the viability and sustainability of medical schemes are not undermined by its Accident and Health products. It further asserts that reform of the Private and Public Health Sector, in line with current and future National Health Policy, is necessary to address these challenges.

Among these challenges are the hospital-centric and curative focuses of the Prescribed Minimum Benefit (PMB) legislation that should be reviewed in order to redirect the focus to

primary and preventative care, thereby aligning the benefit package in the private sector to that of the National Health Policy. This would enable resources to be directed to primary and preventative healthcare and encourage participation from the young and healthy.

The hospital-centric and curative focus further drives the high and ever increasing costs within the Private Health Sector, and the absence of an effective Risk Equalisation Fund to balance the cross subsidisation principle, further exacerbates the cost pressure.

The contributions to Accident and Health Policies represent approximately 1% of the contributions to medical schemes. It is clear that the resolution of the demarcation principle would not significantly address the concerns listed under the policy principles motivation of the Proposed Amendments. OMHS believes that the introduction of compulsory membership of medical schemes for the employed (who earn above the tax threshold) would significantly enhance the viability and sustainability of the Private Health Sector. Furthermore a competitive Public Health Sector would further drive efficiency and focus across the continuum of healthcare delivery.

OMHS would also like to draw your attention to the risk of job losses within the Insurance Sector, should the Proposed Regulations go ahead. In particular the proposed regulations pertaining to 'Gap and Top-Up' products may result in significant cessation of policies and resultant job losses.

Furthermore, should the underlying desired results relating to the Policy Principles which informed the Draft Regulations (i.e. promote younger and healthier membership of medical schemes and buy up within medical schemes) not materialise due to affordability rather than demarcation issues, then a negative impact upon the financial wellbeing of policyholders may result.

OMHS holds the view that its products do not threaten the future viability of medical schemes, but rather that they address the specific financial needs of certain members of the South African public.

OMHS's Accident and Health Products

Old Mutual Hospital Cash Plan (a Long-term Insurance product)

OMHS had 13,715 Hospital Cash Plan policies as at the end of February 2012. The product has been in existence for two years. The cover afforded by this product is a fixed daily amount payable to the policyholder for the duration of the hospital event in order to cover unexpected expenses incurred due to the hospitalisation, but is not marketed as cover for the actual hospital and medical expenses incurred. The premium payable is a fixed monthly premium for either a single member or family, irrespective of age, gender, income or medical risk. The product is therefore not based upon the risk of the individual. The utilisation of waiting periods, as with medical schemes, prevents anti-selection issues for the insurer.

The product is aimed at the lower to middle income market. The aim of the product is to provide financial assistance for unforeseen costs that may arise as a result of an unexpected hospitalisation due to either illness or injury. This may take the form of loss of income, expenses incurred for transport (for example to get children to school or extramural activities), hiring help in respect of domestic chores during hospitalisation, or, because the claim amount is paid directly to the beneficiary, any other unforeseen costs that may arise.

OMHS believes that it has taken a responsible approach to the marketing of these products and specifically states that: **'This policy is not designed as an alternative to, or to replace, a medical scheme'** and **'Earn cash to provide for you and your family's living expenses while you are in hospital.'**

The use of the term hospital in the naming of the product is aimed at ensuring that potential policyholders understand that the benefit is linked to a hospital event and in no way attempts to position it as an alternative to hospital (expense) cover.
The level of premiums and benefit cover in comparison to medical schemes should also be noted. A typical medical scheme product that provides for PMB cover as per legislated requirements would cost a single member anything from a minimum of R800 to R1,200 per month and a family (main member, spouse and 2 children) anything from R2,000 to R3,000 per month. The approximate minimum cost of a hospital day in a general ward is R2,000.

The maximum premium payable by an Old Mutual Hospital Cash Plan policyholder would be R155 per month for a single member which would provide a daily benefit of R1,000 per day

whilst in hospital for non-hospital expenses incurred. Similarly for a family a maximum premium of R330 per month would provide a daily benefit of R1,000 per day in hospital for non-hospital expenses incurred.

In OMHS's view, it would therefore be irresponsible and false marketing to suggest or attempt to position this product as an alternative to medical scheme cover. Furthermore the notion that members of medical schemes may wish to limit or reduce their medical scheme cover is therefore nullified by the level of premiums and benefit cover when comparing Accident and Health Policies and the Medical Schemes Options.

Old Mutual Medical Gap Cover (a Short-term Insurance product)

OMHS had 2,173 policies on the Gap Cover product as at the end of February 2012. The product has been in existence for about two years. The cover afforded by this product is the difference (the 'Gap') between what the medical scheme pays and what the medical specialist charges for medical, surgical and/or consultation fees for insured in-hospital events and chemotherapy, radiotherapy or renal dialysis in an outpatient facility. The premium payable is a monthly premium for a family and is not based on the gender, income or medical risk of the individual. The use of waiting periods, as with medical schemes, is aimed at preventing anti-selection. It therefore supports the principles of open enrolment, community rating and cross subsidisation.

The Medical Gap Cover product is aimed solely at medical scheme members and its design is structured to ensure that it supports the principles of the medical scheme option. This product specifically excludes any benefit for co-payments or penalties that may have been imposed by the medical scheme. OMHS believes that it is therefore acting responsibly and in support of the Medical Scheme option design by supporting the behavioural change concept that is the intention behind the scheme's use of co-payments and penalties.

A significant proportion of the current policyholders are members of the Old Mutual Staff Medical Aid Fund. The fact that this customised product does not include the usual limit for entry and ceasing age further supports the non-risk rated premium design. This is not unlike a medical scheme, which waives underwriting of waiting periods in the case of acceptable group risk.

It is apparently Treasury's view that the principle issue relating to these types of product is the risk of the members limiting or reducing their medical scheme cover. Put another way, the argument is that if a member of a medical scheme did not have a Gap Cover product, then they may be inclined to buy up to 'richer' benefit option within the medical scheme. There are a number of factors to be considered relating to this argument.

Individuals or families that consider medical scheme cover do so primarily based upon affordability. In particular, this would apply to potential open scheme membership, where the member contracts directly to an open scheme. It is reasonable to assert that the general public would make this decision based upon the cost of contributions or premiums and the level of cover afforded by the options of the Medical Scheme. It is OMHS's opinion that it would be the exception rather than the rule that a potential medical scheme member would at this point consider alternatives relating to the combined affordability and level of cover of a combination of a medical scheme option and a Gap Cover product. The marketing approach and product design of OMHS's Gap Cover is aimed at existing medical scheme members who have already made that choice. The product therefore helps members of medical schemes to meet their out of pocket costs.

In the case of closed medical schemes, employees may be limited in their choice of medical scheme or even medical scheme option due to conditions of employment. These employees therefore may be limited in their choice of cover, and the option of Gap Cover may therefore be their only alternative to cover the unforeseen financial risk.

Typically only once members of a medical scheme have experienced a hospital event and incurred specialist costs not covered by the medical scheme option, that they would be inclined to consider an alternative medical scheme, medical scheme option or a Gap Cover product. At this point the consideration of buy up of medical scheme cover or Gap Cover would be related to affordability and level of cover. In our research it is rare that the difference between options on a medical scheme is purely related to the level of specialist cover in hospital. In general, the medical scheme option differentiation is between the level of primary, secondary and tertiary care cover. Another factor that is considered is the level of non-PMB cover. It should be noted that OMHS's Gap Cover product does not differentiate between PMB and non-PMB cover.

OMHS's view is that the cost of insuring the unforeseen risk of specialist charges over and above the medical scheme's cover provides medical scheme members with an affordable alternative to fund this specific risk, which most medical schemes do not cover.

Specific Concerns relating to Proposed Amendments

Retrospective Amendments to Policies

In Section 7 (Summary of the Draft Regulations) of the Government Notice, Sub-Section 7.7 deals with Health Policies entered into prior to the effective date of the Draft Regulations:

- The Registrar may instruct the insurer to stop offering policies and within 90 days terminate such policies. It is understood therefore that no retrospective terminations would be required.
- The Registrar may instruct the insurer, **by a date determined by the Registrar**, to change aspects within the policy before offering these policies or renewing existing policies.

OMHS's understanding is that, in the case of changes required to existing policies, these changes need to come into effect on the date of renewal of the policy. The concern is that the Registrar may determine a date that results in either possible retrospective amendments being required or insufficient time to effect such changes prior to the renewal date.

OMHS recommends that the Regulations should provide for a specific time period for changes, following the instruction from the Registrar, to comply with the instruction, thereby avoiding retrospective amendments to existing policies. We would further recommend that a period of at least 12 months be considered to transition the affected products.

Calculation of Net Income

In Regulation 7.2 (1) a contract within Category 1 has the following criteria:
Policy benefits are limited to 70% of the policyholder's net income per day.

The Proposed Regulation change is not specific with respect to the basis upon which the net income per day will be determined. If a person is not remunerated by way of a fixed salary or wage, but by commission, it will be difficult to calculate the net income per day. In order to operationalize this criterion, OMHS would require confirmation of whether the underlying basis of calculation would be 30 calendar days or 21 working days as well as the allowable deductions to be applied in order to reach a net income position.
A clear definition of 'net income' is therefore required.

With respect to lump sum products listed in Category 1, how would the insurer determine the equivalent lump sum to be payable in this case.
There is also a concern that this criteria implies that these policies will only be available to formally employed people and therefore that the product may not allow unemployed family members to be covered.

Pre-existing Condition Exclusion

It is our understanding that Regulation 7.2 (2)(b) will prevent the insurer from applying a pre-existing condition exclusion to the product benefit. Given that our Health Policies do not apply any underwriting prior to the sale, this Regulation would result in a high level of anti-selection by the policyholders. This mechanism is used in the same way as medical schemes use it to mitigate their risk in this regard.

Long-term Strategy relating to National Health Insurance

OMHS would also like to further understand the long-term intentions of the National Treasury in respect of the introduction of NHI in relation to the current and future Proposed Amendments.

In particular we seek clarity on the role that is envisaged for Medical Schemes and Health Insurers in conjunction with the NHI benefit package. This submission deals with the demarcation between Medical Schemes and Health Insurers which is important in assisting the industry with solutions and supports NHI legislation.

The NHI Green Paper published for comment makes it clear that Government envisages a role for Medical Schemes in the form of "Top Up" benefits over and above the NHI benefit package. Based on this principle, OMHS would like to request National Treasury to provide guidance and details in respect of how "Top Up" is envisaged to support the NHI benefit package for Medical Schemes and Health Insurers. This is important for OMHS in its future planning.

This question is based upon the assumption that NHI will be promulgated in line with the current Medical Schemes Act and Short and Long-term Insurance Acts.

Concluding Remarks

OMHS supports the principles relating to community rating, open enrolment, cross subsidisation and the requirement to clearly demarcate the business of a medical scheme and Health Policies. These principles have guided the development of our products, and we will continue to provide for the needs of our policyholders, whilst supporting the need for a viable and sustainable Private Health Sector.

Taking into account our views and opinions expressed in this submission, we are confident that the Health Policies we provide to our policyholders will continue to provide for a critical insurance need within the Health Sector. Furthermore the design of our products will reflect the underlying principles discussed and any agreed changes that flow from the Proposed Amendments will be accommodated accordingly.

In this regard OMHS recommends the following:

- In relation to Gap Cover products, that serious consideration is given to allowing these products to continue, to apply pre-existing condition restrictions and to be linked to medical scheme membership, subject to the rest of the current regulations and the Proposed Amendments.
- In relation to Hospital Cash Plans, that serious consideration is given to retaining the link to the hospital event and therefore to allowing the continuation of the use of the term "hospital".
- That the move to limiting the Hospital Cash Plans to 70% of the net daily income be reconsidered in favour of the alternative of ensuring that the product is marketed and sold as an income replacement and to offset financial expenses other than medical costs.

OMHS is confident that its input will provide the National Treasury with valuable insight in respect of Health Policies and continued deliberations on the question of demarcation. We will support all affected stakeholders to reach a mutually beneficial result for policyholders and consumers alike.

Yours sincerely