A DEMAND-SIDE PERSPECTIVE ON HOSPITAL CASH PLANS IN SOUTH AFRICA

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FinMark Trust

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TABLE OF CONTENTS

PAGE

1. EXECUTIVE SUMMARY 2
2. INTRODUCTION 6
   - 2.1. Background to the research study 6
   - 2.2. Research objectives 8
   - 2.3. Research methodology 9
   - 2.4. Sample profile 9
3. RESEARCH FINDINGS 12
   - 3.1. Role of medical expenses in overall budget 12
   - 3.2. Meeting medical expenses 13
   - 3.3. Role of health cover in insurance portfolio 18
   - 3.4. Awareness and understanding of different health cover products available on the market 20
     - 3.4.1. Hospital plans vs. hospital cash plans 20
     - 3.4.2. Medical aid 21
     - 3.4.3. Critical illness cover 22
     - 3.4.4. Gap cover 23
   - 3.5. Hospital cash plans in more detail 24
     - 3.5.1. Profile of existing hospital cash plan participants 24
     - 3.5.2. Buying process dynamics 28
     - 3.5.3. Advantages/disadvantages of hospital cash plans and suggestions for improvement 29
     - 3.5.4. Cover level and premiums 33
     - 3.5.5. What pay-out is used for / intended for 35
     - 3.5.6. Claims experience 38
     - 3.5.7. Lapsing of hospital cash plans 40
     - 3.5.8. Awareness of fraudulent claims 42
4. CONCLUSIONS AND RECOMMENDATIONS 45
5. CONTACT INFORMATION 47
6. APPENDIXES 47
   - 6.1. Discussion guides 48
   - 6.2. Generic product descriptions 60
   - 6.3. Description of a typical hospital cash plan 61
   - 6.4. Explanation of the current policy regarding the classification of patients for the determination of fees 62

1. EXECUTIVE SUMMARY

There is an ongoing debate regarding the role of health insurance products such as Hospital Cash Plans (HCPs) vis-a-vis medical schemes in South Africa. In order to obtain a deeper understanding of the dynamics of the demand-side of HCPs from the consumer point of view, a series of 10 focus group discussions were conducted with current and potential clients of HCPs during the last week of September 2013 and the first week of October 2013. The discussions were conducted in Johannesburg and Durban, which were identified by suppliers as the most important markets for the product. The sample consisted of 6 groups with current HCPs clients and 4 with potential clients who had experienced a recent medical event.

The main findings of the research are summarised below:

Meeting medical expenses

The findings suggest that medical or healthcare expenses are not a top priority expense in people’s regular budgets. Nevertheless, paying for medical expenses when they do arise is challenging.

When medical care is required, all participants indicated that they would prefer to go to private facilities since public facilities are not up to standard, with long queues, bad service, inferior healthcare and unsanitary conditions. Private facilities are however not affordable and the majority of the market under investigation is forced to make use of public facilities that are either free of charge or charge a minimal fee.

When individuals do have money available (usually at the beginning or end of the month) they prefer to make use of private doctors. When they suspect that they suffer from a serious condition, they are also more inclined to consult a doctor in private practise, regardless of the time of month.

Most respondents cannot afford such medical expenses as part of their normal household budget. The minority of respondents who belong to a medical aid will use it to cover their expenses. However, current medical aid options are regarded as too expensive for the majority of the market under investigation. For them,

borrowing money in order to cover the costs is the most common strategy.

Awareness and perceptions of medical cover options

In terms of different products available to cover medical expenses, awareness is highest for HCPs, followed by medical aid.

Although medical aid is aspirational and perceived to afford preferential and superior treatment at private facilities, it is not affordable and therefore not an option for the majority of this market. It is also seen as restrictive (some options limit the member to certain doctors and hospitals, do not cover all procedures, etc.) and a definite loss if not used/claimed against. Most respondents would find medical aid attractive it if had been more affordable and offered less restrictive benefits. As they cannot afford it, however, they look elsewhere in terms of coping with medical expenses.

It was clear that confusion exists between the terms "hospital plans" and "hospital cash plans", which were perceived as one and the same thing. Many owners of HCPs were under the impression that their product is called a hospital plan. Yet when they were probed about the features and benefits, they displayed a good understanding of HCPs and were clear about the fact that a HCP pays a predefined benefit for the number of days they spend in hospital – as opposed to a medical aid or hospital plan which reimburses the healthcare provider.They consider HCPs to be affordable, especially because one can choose your own premium according to your disposable income.

Views on HCPs

Two aspects stand out across the groups as the main advantages of HCPs:

- The main advantage of HCPs is the cash amount that is paid out, not only is the cover amount per day very attractive, it is also paid out to the holder of the plan to spend as s/he wishes.
- Respondents are also attracted by the perceived **peace of mind** that HCPs provide.

The main disadvantage and therefore also the feature of HCPs that current and potential clients would like to see changed, is the requirement that one must be

hospitalised for at least 3 days in order to claim.

What payout is used/intended for:

Current and potential clients have used or intend to use a pay-out from their HCP in various ways:

The majority of respondents regard their cash payout as an income replacement (the breadwinner will most probably not earn an income during hospitalisation), that will be usedto pay for top priority monthly expenses which include groceries/food, school fees, accounts/bills/water & electricity, as well as to settle general debt incurred as a result of being in hospital.Although some claim that they will also use the pay-out to pay back loans, to save money for further medical expenses or a rainy day, to treat themselves or to fund medication that they might take for some time after they have been discharged from hospital, the main application of the pay-out will be to replace income that is lost due to hospitalisation.

Buying process dynamics

- Television advertising where consumers are invited to SMS their details and then be called back to receive a more detailed explanation of the product appears to be a very effective way of creating awareness of HCPs. Mention was also made of representatives/brokers who came to the workplace to speak about the product and upselling that took place after another financial product was bought. This indicates that, similar to other insurance products, HCPs are sold and not bought.
- Those who went through the buying process reported a positive experience.

Claims process experience

- Contrary to a positive buying experience, the claims process is generally experienced negatively. In addition to providing a copy of their ID, comprehensive medical reports are required. These can take very long to be obtained and, in Durban in particular, cases were reported where claimants had to pay the doctor and hospital to get copies of the reports.
- Financial constraints will be the main reason why HCPs will be cancelled; bad

service and rejected claims (unfairly in their perception) as well as a feeling of "losing out" (i.e. paying premiums every month without any opportunity to claim) might also lead to dissatisfaction and cancellation.

Awarenss of fraud in the HCP market

- Individuals in Durban, in particular, were aware of customer fraud with respect to HCPs. All were aware of the negative impact of such activities, mainly in terms of complicating the claims process (i.e. making it longer and more tedious), but also in that it will lead to premium increases.

2. INTRODUCTION

2.1 Background

Very few South African adults belong to a medical aid (13.8% according to the most recent AMPS statistics and 16.8% according to CMS statistics[1]). The AMPS statistics show that the incidence of medical aid cover correlates with affordability and is very low amongst Living Standards Measure (LSM) 1 - 6 (2.7% on average, rising to 6% for LSM 6), after which it increases sharply, with 62% of LSM 10 having access to medical aid.

In 2012 FinMark Trust commissioned Lighthouse Actuarial Consulting to review the market for HCPs as an alternative or complementary form of health cover[2] for the lower income market. The study, henceforth referred to as the 2012 study, concluded that HCPs can offer an effective and affordable health cover solution to low income earners who have no other available options, in particular those who use public hospital facilities but have to pay for these services according to their income level[3].

There are, however, some factors that appear to threaten the future viability of HCPs, most notably:

- High incidence of fraudulent claims.
- Proposed revised demarcation: On 2 March 2012, the Minister of Finance gazetted draft demarcation regulations for public comment outlining a proposed revised demarcation between medical schemes and health insurance products. The Regulations were the outcome of a joint process between the National Treasury, Department of Health (DoH), Financial Services Board (FSB) and Council of Medical Schemes (CMS). In particular, the demarcation provided that the benefits of health insurance products cannot be related to the cost of treatment and that daily HCP benefits are to

[1] Lighthouse Actuarial Consulting. 2012. *Review of the South African Market for Hospital Cash Plan Insurance.* [Online]. Available: http://cenfri.org/health-insurance-and-financing/review-of-the-south-african-market-for-hospital-cash-plan-insurance

[2] For the purposes of this document, health cover will refer to any form of medical aid and/or health insurance.

[3] See Appendix for an explanation of the current policy regarding the classification of patients for determination of UPFS (Uniform Patient Fee Schedule).

be capped at 70% daily income (net of tax) of the policyholder. It furthermore provided for underwriting for health insurance products.

The publication of the draft regulations saw widespread reaction from the market and received a significant amount of media attention. On 15 October 2013, National Treasury published a press release with an update on the timeline and contents of the proposed revised demarcation regulations, which are now expected to take effect in 2014[4]. The revised second draft regulations will acknowledge that, "while health insurance products have a role in the market place, these products must operate within a framework whereby they complement medical schemes and support the social solidarity principle embodied in medical schemes." Thus the continued sale of gap cover and HCP insurance will be allowed, but defined regulatory product parameters will be set within which they must operate. "These parameters, by explicitly requiring that health insurance products be provided on similar terms as medical schemes, seek to ensure that medical schemes are not compromised".[5]

In order to further inform the policy debate, FinMark Trust has identified the need to complement the findings of the 2012 study with qualitative market research to explore the dynamics of the demand-side of the market for HCPs. The purpose of this study is to investigate current and potential clients' understanding of HCP insurance versus medical aid, the reasons for buying HCP insurance and the uses to which it is put, in order to conclude on whether HCPs in practice serve as a substitute or top up to medical aid, or serve a different target market and different purpose than medical aid.

[4] http://www.treasury.gov.za/comm_media/press/2013/2013101501%20-%20Demarcation%20media%20statement.pdf

[5] Lighthouse Actuarial Consulting. 2013. *Review of the History and Legislative Landscape of the South African Market for Hospital Cash Plan Insurance.* Forthcoming. See www.finmark.org.za

2.2 Research Objectives

The primary objective of the research was to obtain a deeper understanding of the dynamics of the demand for HCPs from the consumer point of view. To do so, the following elements were explored:

- Understanding of current medical needs and how these are addressed:
  - For outpatient care: use of private doctors, clinics, pharmacies and traditional healers, respectively.
  - For inpatient care: use of private vs. public hospitals.
- Main financial implications of healthcare needs and how these expenses are met.
- Awareness and understanding of different medical aid and insurance products on the market.
- Understanding of and reaction to HCP features and benefits in terms of positives, negatives and suggestions for improvement.
- How participants first became aware of the product.
- Buying process dynamics (to test whether HCPs are sold rather than bought).
- Reasons for buying the product and what the pay-out is, or will be, used for.
- Experience of claiming and resultant level of satisfaction with the product (testing whether expectations were met).
- Awareness of fraudulent claims practices and the expected impact thereof on legitimate claims.

On a secondary level, an understanding of the nature of the demand-side of the market was explored from the point of view of product suppliers, covering:

- Perceptions of the needs of clients, why they are buying the products and how they are using them.
- Perceptions regarding the profile of their clients (to inform recruiting parameters).
- Perceptions of implications of revised demarcation.
- Perceptions of the impact of fraudulent claims and remedial steps taken.
- Perceptions of the future of HCPs.

2.3 Research Methodology

A hybrid qualitative approach was followed, combining different techniques and speaking to different target groups in order to approach the research problem from multiple angles.

- Focus group discussions were conducted with consumers who are existing HCP clients as well as with consumers who are potential owners of such products.
- Individual in-depth interviews were held with suppliers of HCP products and regulators.

2.4 Sample Profile

Supply-side interviews

Four in-depth interviews were conducted with suppliers of HCP products, namely AIG, Clientele, Hollard (Edcon) and Sanlam Sky.

In addition, two interviews were conducted with representatives of the Financial Services Board (FSB) and the National Treasury, respectively.

Group discussions

10 group discussions were conducted with current and potential HCP holders during the last week of September 2013 and the first week of October 2013.

The compilation of the groups was finalised after the supplier interviews. Feedback about the perceived profile of their clients as well as the geographical spread of policy holders (with a notable concentration in KwaZulu-Natal) informed the final sample design and distribution of the groups.

After finalisation of the sample and division of the groups, the HCP suppliers that participated in the study provided lists of their clients that qualified for inclusion in the sample. These lists were used for recruiting purposes.

A total of four group discussions (two with males and two with females; one male and female group each in Johannesburg and Durban) were conducted with **potential clients**. Potential clients of HCPs were defined as follows:

- 25 – 49 years of age.
- Personal income of between R6000 – R12000 per month (so that they do not qualify for subsidisation at public hospitals; currently individuals who earn R72 000+ per annum pay full fees according to government's Uniform Patient Fee Schedule, refer addendum to this report).
- Do not currently have any form of health cover (medical aid or health insurance).
- Have experienced a medical incident during the past 18 months in that they themselves or a close family member was hospitalised as a result of illness or accident (so that they are aware of the direct and indirect expenses entailed by hospitalisation).

The remaining six group discussions were with **existing HCP clients**:

- Amongst existing HCP clients, four groups were with owners of *standard plans* with cover levels of up to R500 per day (for an individual or a family), whilst two were with owners of *premium plans* with cover levels of R750 or more per day (for an individual or a family).
- Within the above, an equal number of groups were conducted with males and females, and in Johannesburg and Durban.
- The groups were further recruited to include:
    - Plan holders who acquired their HCP product during the past 18 months and could therefore still recall their buying experience and motivation for decisions (referred to as new business).
    - Plan holders who have submitted a HCP claim during the past 18 months.

The group schedule was as follows:

Area	Group	Description of group profile
Johannesburg	1	Female potential clients
	2	Female clients, new business, cover level up to R500 per day
	3	Male potential clients
	4	Female clients, cover level up to R500 per day, have claimed
	5	Male clients, cover level R750^{+} per day, mix of new business and claimants
Durban	6	Female potential clients
	7	Male potential clients
	8	Male clients, new business, cover level up to R500 per day
	9	Female clients, cover level R750^{+} per day, mix of new business and claimants
	10	Male clients, cover level up to R500 per day, mix of new business and claimants

Please note: This report focuses on the demand-side feedback that was obtained from the group discussions with current and potential clients. The objective of the interviews with suppliers and regulatory bodies was to inform sample design and to aid understanding and interpretation of demand-side views in light of the demarcation and financial inclusion policy debate. Also note that all findings are qualitative in nature, as derived from the focus group discussions, and therefore cannot be generalised to the population at large.

3. RESEARCH FINDINGS

3.1 Role of medical expenses in overall budget

In order to better understand the role of medical expenses in their overall budget, the group discussions started with participants generating a list of the typical expenses they need to provide for, for themselves and their household. Although medical or healthcare expenses are one of the expenses that a household needs to provide for, it was not spontaneously mentioned as one of the top household budget priorities. Most respondents, across gender and geographical splits, do not make explicit provision for health care expenses because it is not something that happens every month. They make a plan to deal with it when it happens.

Expenses that top the list are mostly those that are required for respondents' daily lives. This is indicative of the fact that for most of the market under investigation, money is not freely available and what is available, is spent on necessities. Primary expenses are: (i) groceries/food; (ii) housing (e.g. rent/paying back a bond) and related expenses (e.g. rates/taxes and services such as water and electricity); as well as (iii) transport costs (which include taxi fares or an instalment for a car, as well as petrol). Also amongst the top priority expenses are school fees and policies/investments. Although we did not probe the policies owned in detail at this stage of the discussion, it can be presumed that policies here refer mainly to funeral cover, which was owned by the majority of respondents. It is also likely that the current HCP owners included their contribution towards this when they referred to policies generically. More detail on the type of products represented in participants' portfolios follow in paragraph 3.3 below.

Together with expenses relating to account payments (clothing and furniture), entertainment, stokvels and telephone bills/airtime, medical expenses were regarded as a "secondary level" expense.

3.2 Meeting medical expenses

Although providing for medical expenses is not a top priority, there is acknowledgement of the fact that accidents happen unexpectedly and that chronic conditions such as diabetes, HIV and TB need medical attention.

Facilities used

The majority of respondents aspire to make use of private facilities (doctors and hospitals), but in reality simply cannot afford it. Therefore, when medical services are required, the **first port of call** is to make use of **public facilities**, namely clinics (which in most cases are conveniently located close to home and can be reached by foot) and public hospitals. Clinics are free and public hospitals are regarded as charging a minimal fee. These facilities are however crowded and characterised by long queues and long waiting times; medical care is also regarded as "*not good*" (ascribed by participants to inexperienced student doctors) and facilities are described as "*filthy*". Often these facilities do not have stock of medication, which means that a private pharmacy needs to be visited. Public hospitals lack basic supplies such as bedding, food and toiletries. Thus the patient or his/her family need to incur additional expenses to purchase these items.

> *"The queues at clinics and hospitals are stressful and frustrating."* (Potential HCP client, female, Durban)

> *"I got sick at night. I called the ambulance to come and get me but … It didn't arrive until 3 in the morning. One of my brothers took me to the hospital ... I woke up in the morning, lying on a stretcher in a corridor. It was crowded and there was no one who could help us the whole day. No one cared about anybody else. There were a lot of us sleeping in the passage and nobody would help us. We were forced to go to another hospital and things were better there. They don't know how to take care of people in public hospitals."* (Potential HCP Client, female, Durban)

There are however **exceptions to the rule**, that is, times when **private doctors** will be consulted instead of clinics and government hospitals, namely:

- Respondents will visit a private doctor at the beginning or end of the month (after they've received their salary or wage) or at any other time when money

is available. Although private doctors are seen as expensive, they are preferred since they offer better and more specialised healthcare. Participants also prefer private doctors as there are no long queues and service is rendered immediately.

- Severity of illness also determines where people go to, for a serious illness a private doctor will be seen regardless of the time of month, even if they need to borrow money (often from informal money lenders) to pay for the consultation; for conditions such as colds and other minor health issues, a clinic is sufficient.

  "I only go to the private doctor if my child is vomiting or maybe if he has a high temperature because I can't go to the clinic since they'll just tell me to go to queue no matter how serious the situation is." (Potential HCP client, female, Johannesburg)

  "Your normal flu you go to the clinic but if it's severe sickness like ulcers you can go to the doctor to get something better compared to the clinic. At the clinic they'd just give you painkillers." (Current HCP client who has claimed, with benefit of R500 a day or less, female, Johannesburg)

In addition to state facilities and private doctors, **pharmacies** will be utilised to get a prescription or to obtain over the counter medication for a minor condition. The pharmacist can also advise on medication and supplements to take.

> *"Sometimes you go (to pharmacy) if you have something you don't understand going on with your body…. So you tell the pharmacist and they give you medication. Sometimes you go there to buy what's on your script that you got from the clinic."* (Current HCP client, with benefit of R500 a day or less, male, Durban)

> *"Maybe if you have a small cough you'd just go to the pharmacy for medication rather than going to the doctor because the doctors would charge you a lot of money for a small thing."* (Current HCP client who has claimed, with benefit of R750 a day or more, male, Johannesburg)

Some respondents (there appears to be a skew towards females) do not believe in **traditional healers** anymore. Many however still feel that they play a role, especially for treating a persistent medical problem for which medical treatment is

perceived as ineffective.

> *"I go to the traditional healers when I need to clean myself (to clean blood 'detox'). They know how to give you Zulu things to gquma (sweat out the toxins from the body) and to phalaza (induce vomiting)."* (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

> *"If the illness persists some would advise you to go consult traditional healers because at times you find that you get sick and not because you're really sick but the ancestors want to tell you something."* (Potential client, female, Johannesburg)

Methods for meeting medical expenses

Respondents with both medical aid and HCP, use their HCP as a top up or a substitute to medical aid, while respondents without medical aid generally find it difficult to meet medical expenses:

- **Respondents with medical aid**: Only three of the existing HCP clients with standard plans[6], interestingly all from Durban, belonged to a medical aid. In contrast, the majority of existing HCP clients with premium plans[7] belonged to a medical aid, most probably via their employer. In these instances, the medical aid was used to cover any medical expenses.
    - Those who own a HCP in addition to medical aid, do so for mainly 2 reasons: (i) to complement their medical aid, that is, to use the pay-out to cover expenses that the medical aid does not pay for when in hospital, for example specialists whose rates are above the medical scheme's tariffs; (ii) to cover (additional) expenses that they might incur because of the fact that they are in hospital, for example the family's travel costs to and from the hospital.
- **Respondents without medical aid:** For the majority of respondents who do not belong to a medical aid, it is a battle to pay for medical expenses and various strategies are employed to meet expenses:

[6] Cover level of R500 or less per day
[7] Cover level of more than R750 a day

- Those who own a HCP indicated that they can cover some medical and non-medical expenses incurred as a result of hospitalisation via their HCP. They would however need to resort to other means for outpatient care or hospitalisation of fewer than three days.
- Although some try to save money for emergencies, it is not always possible and savings are often not sufficient to meet medical expenses.
- The most common strategy for paying medical expenses is to borrow money either from family, neighbours, friends or, if no choice, from loan sharks.

  "Illness doesn't have timing, when the child is sick you look at your purse and find nothing so you'd go to your neighbour, your friends or whoever." (Potential clients, female, Johannesburg)

  "You go to people who can lend you money, if you agree to pay it back with interest. So you borrow R1000 from them and when the end of the month comes, you can't pay it back because of other debts. The amount continues to increase to a point where they come to your house as a team, and collect your belongings." (Potential clients, male, Durban)

- Sometimes, they would make an arrangement with the doctor or provider to pay off the account via monthly instalments.

  "I told them I don't have medical aid, they asked me if I'm working I said yes and they made an arrangement for me to pay them monthly." (Potential clients, male, Johannesburg)

- Another strategy is to make adjustments to their household budget to pay the costs, for example by taking money away from other expenses such as groceries, entertainment, water and electricity.

  "Sometimes you don't pay, or take money out of the stokvel just so you can pay for your medical bills, or you use your transport money hoping your family members would assist you when you need it." (Current HCP client who has claimed, with benefit of R500 or less a day, female, Johannesburg)

"It's very difficult because you end up prioritising those expenses like you end up not paying for other things just so you can pay for the emergency you're faced with at the time." (Current HCP client who has claimed, with benefit of more than R750 a day, male, Johannesburg)

3.3 Role of health cover in insurance portfolio

The focus group discussions sought to unpack respondents' engagement with insurance products and how health covers fit within their overall portfolio of insurance and investment products.

The majority of participants in all the groups (just under 9 out of every 10 respondents) have funeral cover. Although many claimed to have life cover and educational plans, the recruitment questionnaires indicate much lower levels of actual ownership (around 2 out of 10 respondents)[8]. A minority have retirement provision (such as retirement annuities), short term insurance, or other savings or investments. As indicated before, amongst current HCP owners, a minority with standard plans and a majority with premium plans belonged to a medical aid, in addition to owning a HCP. Potential HCP clients were recruited to not currently own any form of medical cover.

With a few exceptions, funeral cover was the first product that was acquired. Respondents face the reality of death on a regular basis and believe that funerals are expensive and need to be provided for.

> *"We grew up being told that we might die the following day so we got it first."* (Potential client, male, Johannesburg)

> *"You don't want your parents or whoever is left behind to be burdened with your burial."* (Potential client, female, Durban)

> *"You won't have to go backwards financially while you are in pain (mourning). So you get the money, cover your debts and then deal with your pain."* (Current HCP client, with existing benefit of R500 or less a day, male, Durban)

After discussing their current portfolio, participants were also asked what type of insurance they were interested to acquire next, should they be able to afford more financial products. Amongst potential clients, the most desired next product is some form of health cover, mostly HCPs. Interested potential clients were attracted to HCPs by television adverts and find the promise of money to help pay bills when hospitalised appealing. Other reasons for the attractiveness of HCPs include:

[8] It is expected that respondents listed the products that they are aware of, instead of the products that they actually own as the moderator asked them to.

“having money when sleeping in hospital”, “peace of mind when sick” and the fact that they will have an income when they are not in a position to work. A minority indicated that they would like to have medical aid since it will allow them to make use of private facilities and thereby receive better healthcare.

The next priority amongst existing hospital cash plan clients in particular will be savings related, notably to invest in a retirement annuity or education plan towards tertiary education for their children.

> *“Most of the people I work with have pension funds and it’s not enough but if you have the retirement annuity as your second saving it works out the best.”* (Current HCP client who has claimed for ZAR 750 per day, male, Johannesburg)

3.4 Awareness and understanding of different health cover options available on the market

When asked to spontaneously mention types of health cover options available on the market, most respondents referred to hospital plans/cover or HCPs (using the two terms interchangeably). This was followed by medical aid and insurance products that cover conditions such as "chronic" illnesses (*meaning critical illnesses*), accidents and disability.

An array of other products to cover medical expenses were also mentioned by individuals, ranging from maternity plans, HIV plans, Mediplan, Medsure, ER24, to loans from financial institutions and social clubs/stokvels that specifically cater for medical expenses.

Below, we explore the main categories that were discussed:

3.4.1 Hospital plans vs. HCPs

When respondents' *spontaneous* understanding of terms was tested, there appeared to be great confusion between the terms "**hospital plans"** and "**hospital cash plans"**. When probed about the features and benefits, it was evident that what was described by individuals as hospital plans/cover is indeed HCPs. Very few individuals had a clear understanding of what the difference between hospital plans and HCPs is and believed it is one and the same thing – just different words that are used.

To better understand levels of confusion, generic product descriptions were compiled and used after the first day's groups. These descriptions were only introduced after spontaneous understanding of health cover products was explored. It was interesting to note that once the descriptions of hospital plans and HCPs were read to individuals, they could in most cases recognise which product/plan goes with which description.

Overall, current and potential clients displayed a relatively good understanding of HCPs: "*The name says 'I am going to get money'*"; "*it pays out money for you to cover your expenses*"; "*when hospitalised, money is paid as compensation for being hospitalised*"; "*you get paid for being sick*"; "*money is paid to the holder, not to the hospital*"; "*pay-out is determined by premiums paid each month: if you want*

more pay-out, you need to pay more each month".

Thus, although confusion existed between the terms "hospital plan" and "hospital cash plan", it was clear that individuals' understanding of the features and benefits of HCPs indicate that they do not expect to receive hospitalisation benefits from the product.

Here and there some details of the product were not correctly understood, for example the length of the waiting period and who the money is paid to (some seemed to think that the money is paid to the policy holder if admitted to public hospital, but to the hospital if admitted to private hospital).

3.4.2 Medical aid

Although the market under review perceived medical aid to be the gateway to more superior private health care, medical aid was generally perceived as unaffordable, a product for people who earn a lot of money.

> *"We have asked for medical aid at work and they refused because our income was too low."* (Potential clients, male, Durban)

In addition, medical aid was regarded as restrictive, by dictating which hospitals/doctors one can go to, imposing limitations in terms of benefits and medical procedures that are covered, by not paying bills in full, or by requiring pre-authorisation before admission to hospital.

Medical aid was also considered to be "money down the drain" if not used/claimed (as will be seen below, the same sentiment applied to HCPs). Relevant responses in this regard included that you pay every month, whether you are sick or not, and that it helped when you are sick, but is of no help when you are not sick. This resulted in a feeling of being exploited.

The afore-mentioned were also the main reasons quoted why very few individuals had medical aid and why some have cancelled their membership.

On the positive side, though, there was agreement that membership of a medical aid enables one to afford to go to a private hospital or private doctor that provides immediate attention and better medical care compared to public hospitals. A perception existed that medical aid will help to "prevent death" since you are

helped immediately and by more experienced and specialised staff.

> *"Having medical aid is very important when you are working. Because today the governmental health system in South Africa is collapsing. If you're an employed person, at least you have the means to get medical aid. Get the best health care that you can afford. …You don't get the assistance you expect at government hospitals. It's better to go to private hospitals."* (Current HCP client who has claimed, with benefits of R500 or less a day, male, Durban)

> *"Medical aid, it's very important. I want to raise that point about how it prevents death. Sometimes people get sick, but aren't able to get help because they don't have money. In the end you find that they got sick until they died, just because they didn't have money. They couldn't get to a doctor who could help them."* (Potential clients, male, Durban)

Medical aid was perceived to pay for consultations, hospitalisation, medication and for chronic conditions such as high blood pressure and diabetes. There was also no need to pay upfront for treatment (as is the case if you do not belong to a medical aid and want to make use of private medical care).

> *"When you use medical aid you do not pay cash at that time. If one of my children is sick and I've got medical aid, I can put them on it and they will not charge me."* (Potential clients, male, Durban)

> *"There's no money involved if you pay your policy, even if it's an emergency you can just go to the doctor and produce your medical aid card or whatever."* (Potential clients, male, Johannesburg)

In summary, therefore, most respondents would find medical aid attractive if it had been more affordable and offered less restrictive benefits to them. As they cannot afford it, however, they look elsewhere in terms of coping with medical expenses.

3.4.3 Critical illness cover

Although respondents indicated that they are aware of critical illness cover when prompted, few had a clear understanding of what exactly it entails and confused it with what they call "chronic cover" for people with chronic illnesses (diabetes, high blood pressure etc.).

> *"If you go for dialysis or something like that or let's say you've got a kidney*

problem or one of these critical illnesses, they pay for those expenses." (Current HCP client who has claimed, with benefit of R750 or more a day, male, Johannesburg)

3.4.4 Gap cover

There was limited awareness and understanding regarding gap cover, with the majority indicating that they have never heard of this.

"Is it for your teeth??" (Potential client, male, Durban)

3.5 HCPs in more detail

Having considered medical expenses and coping strategies in general, as well as understanding and perceptions of different types of medical cover, the attention in the rest of the report turns to unpacking the demand for HCPs.

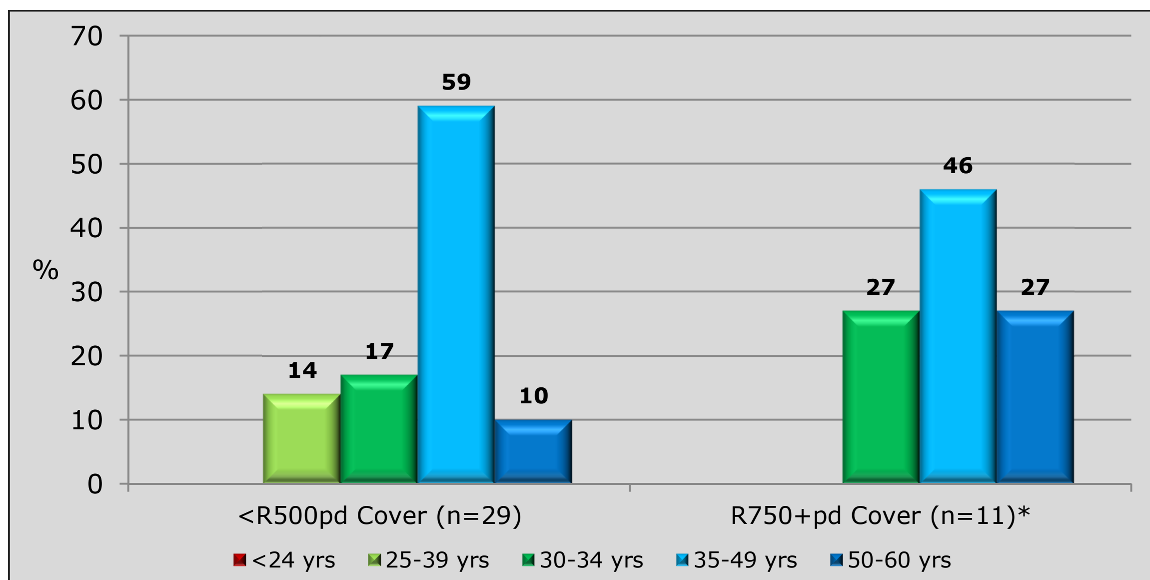
3.5.1 Profile of existing HCP participants

The profile of existing HCP owners that participated in this study is depicted in the graphs below. Please note that profiles are based on small sample sizes and should therefore be seen as an indication, rather than exact profiles.

<u>Age</u>

As shown in figure 1, HCP holders who participated in the research, skewed towards individuals older than 35 years.

Figure 1: Age profile

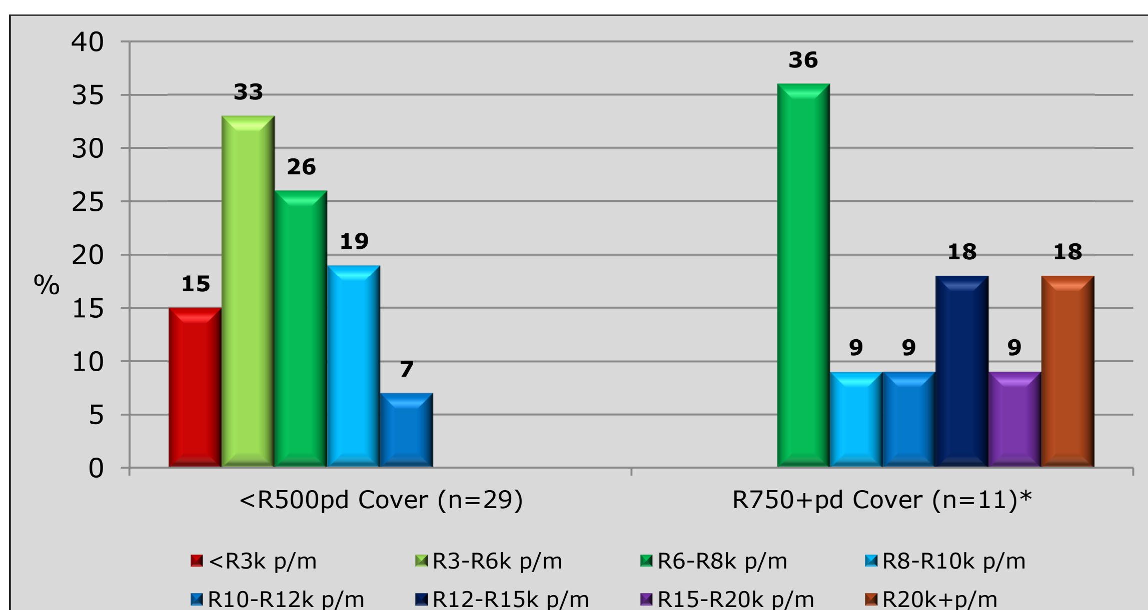


Personal income

It appeared that HCP clients who attended the group discussions, are not the poorest of the poor. The minority of those with a standard plan have an income of below R3,000 per month, with the majority of participants with a standard plan earning between R3,000 and R10,000 per month.

For those with a premium plan, only a few, all of them female government employees in the Durban groups, earned between R6,000 and R8,000 per month and none earned below that. The remainder of this segment earned significantly more than that, some as high as R20,000 per month or more.

Figure 2: Personal income per month



*Please note: Very small sample size

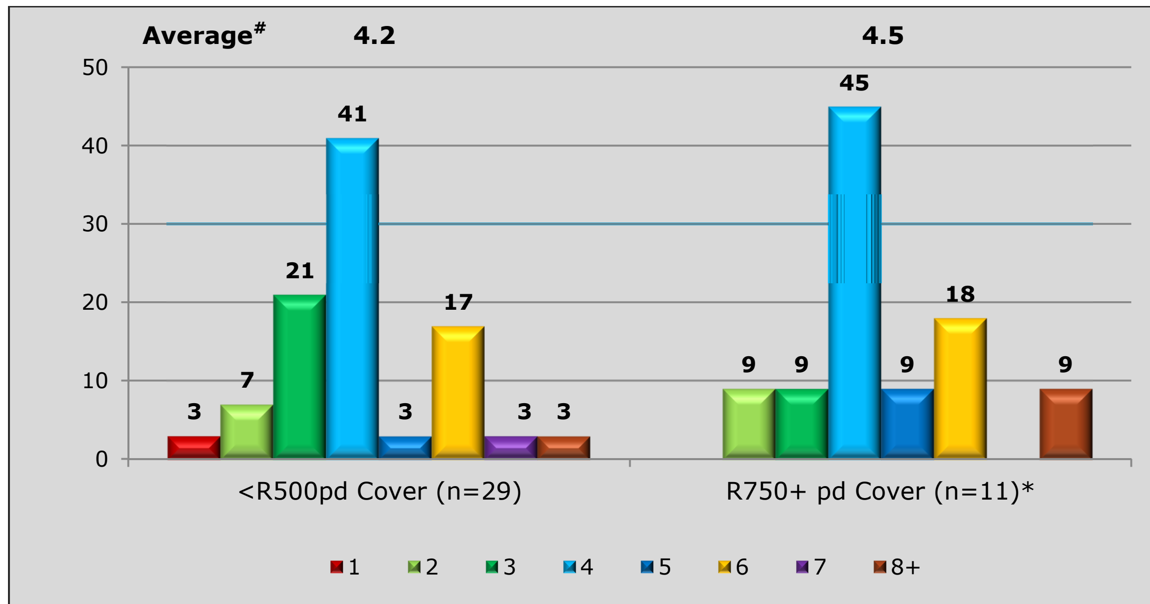
Working status

All HCP holders involved in the research were working (mainly in full-time employment).

Those with standard plans were occupying "lower level" jobs such as assistants, security officers, drivers and admin clerks whilst those with a premium plans were occupying "higher level" jobs such as HR officers, teachers and legal advisers.

Number of people in household

Figure 3: Number of people in household



#Refers to the average number of people in a household *Please note: Very small sample size

According to figure 3, most respondents' households consist of 4 or more people.

Table 1 below indicates household composition. Besides the person involved in the research, the household includes a spouse/partner as well as children in primary or high school. Amongst those with premium cover levels, the incidence of children in tertiary education is also evident (36% of those with premium cover have children in tertiary education). It was interesting to note that females, in particular those with standard cover levels, were more likely to be single parents:

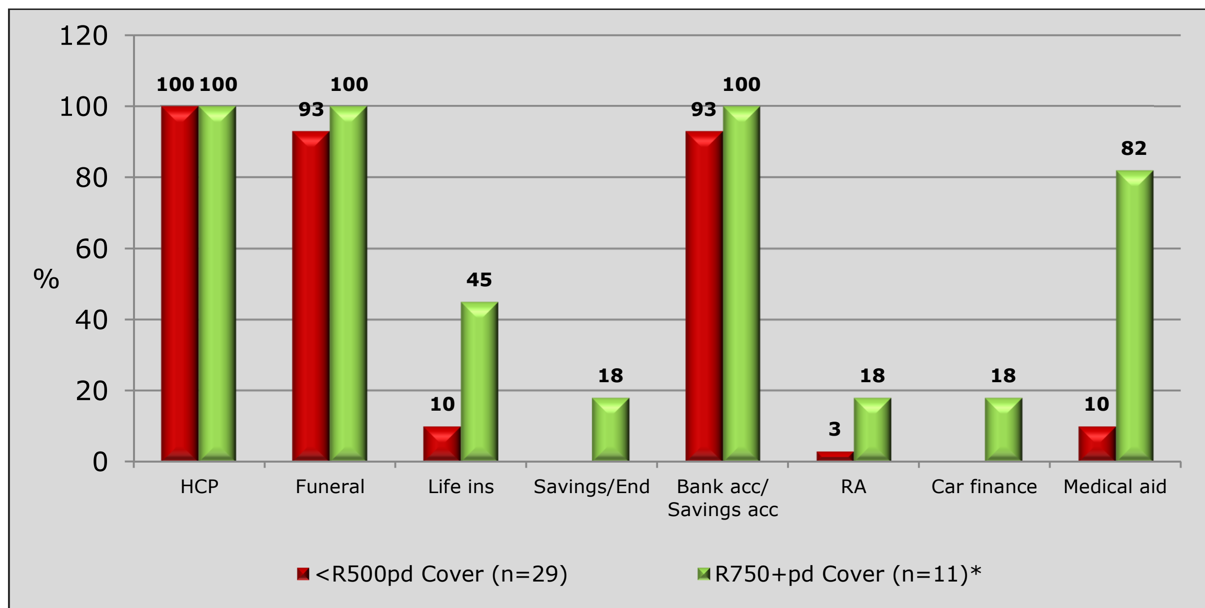
Table 1: Household composition

	Standard cover	**Premium cover**
	%	%
Spouse/partner	69	**82**
Children in primary school	66	55
Children in high school	55	45
Babies/pre-school children	24	27
Children in tertiary education	3	**36**

Financial product holding

The incidence of life insurance, savings/endowment policies, retirement annuities, car finance and especially medical aid is much higher amongst HCP holders with premium cover levels than those with standard plans. Amongst both standard and premium plan holders, funeral cover and bank accounts were the most widely held other financial products.

Figure 4: Financial product holding



*Please note: Very small sample size

3.5.2 Buying process dynamics

Current as well as potential clients stated that they became aware of HCPs mainly via television advertising (specific reference was made to the Desmond Dube advert by Clientele) where one is asked to SMS your details to a number and is then called back, with the call centre agent explaining the details of the product.

> *"From the adverts by Desmond Dube on TV, when you switch on your TV you see him."* (Potential clients, male, Johannesburg)

> *"There's a number you can SMS so I did just that to Clientele and they called me back. They explained everything to me and after that I gave them my information. They processed everything and after that they sent me a letter confirming that I'm covered by Clientele."* (Current HCP client who has claimed, with benefit of R750 or more a day, male, Johannesburg)

In addition, mention was made of a representative of an insurance company who came to the workplace to speak about the different types of cover and explain how the product works, as well as of upselling after they bought another product such as funeral insurance. In these instances, a representative of the insurance company phoned them to ask whether they would like to consider additional products.

> *"I got mine from the person I had bought funeral cover from. I started a policy with Sanlam. So after I signed the documents for my funeral cover, he then explained the importance of having a HCP. He explained it and I found myself thinking it was something that's important to have. A year after I took it, my wife was hospitalised when she fell pregnant. They didn't give me a problem. After I submitted my claim, they paid me less than 2 days later. So it's important to have a HCP."* (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

Friends and word of mouth as well as newspapers/radio/magazines/general media also played a role to create awareness of the product.

Generally, HCP clients experienced the buying process positively, according to current clients the sales person explained all the features and benefits of the product and all documents were received as promised.

3.5.3 Advantages/disadvantages of HCPs and suggestions for improvement

Based on their existing knowledge of HCPs as well as a description of a typical HCP that was handed to respondents, the advantages, disadvantages as well as opinions about cover levels were discussed. (A copy of the description can be found in the Appendix.)

Across all groups, two aspects stood out as main perceived advantages of HCPs:

1) The **cash** that is paid out to the policyholder:

- The promised pay-out was very attractive, especially amongst potential clients:

  "What's good about it is that if you're hospitalized for ten days you come out the rich man. (Potential clients, male, Johannesburg)

  "I've heard with some you can get R5000.00 for each day you're admitted but that sounds too good to be true because what if you're admitted the whole month." (Potential clients, female, Johannesburg)

Please note that although this daily benefit is much higher than the typical cover of most HCP owners, their perception is shaped by this advertised amount.

- The fact that the cash can be used for whatever the policyholder wishes is seen as positive. In particular, the cash pay-out is regarded as beneficial when staying in hospital for a long time: the money that will be received can be used to replace income lost while in hospital or to subsidise income if unable to work after being discharged from hospital.

  "We liked that you get money handed to you in cash and you can even go pay your child's school fees." (Potential clients, female, Durban)

  "I was lying in hospital, I'm not making any money, and there is no money for bread at home. This money can help you out anywhere; it's not specifically for paying medical bills, because my medical aid does that. So while I was lying there, I couldn't do any of the things that I usually do to

bring in cash." (Current HCP client who has claimed, female, Durban)

- Some participants mentioned that there is a cash back reward after 5 years of no claiming. This was regarded as a definite plus, but the sentiment was expressed that the financial services provider should be specific in terms of the percentage of cash back that will be paid out.

  "Medical aid doesn't give you anything back but cash back plan does and you can use that money for other things." (Current HCP client who has claimed, with benefit of R750 or more a day, male, Johannesburg)

- It was also mentioned that the HCP is seen as an investment since the cover amount is significantly more than the income that they earn per day.

  "If I'm paying R200.00 I can get around R800.00 daily depending on the number of days I'm in hospital and I think of that money as an investment pocket for me so it helps in those instances because you can cover a lot of things." (Current HCP client who has claimed, with benefit of R500 or less a day, female, Johannesburg)

2) The second main advantage of HCPs was the perceived **peace of mind** that it provided, that is, the assurance that the family will not suffer whilst the breadwinner is in hospital. Females in particular were concerned about providing financially for their children, should they be hospitalised. Many of the females who participated in the group discussions were single mothers.

"So it would give me peace of mind in the event that I fell sick. Also, because with the times that we live in, it seems as if stress is in fashion. If you are self-employed like me and you get sick, you lie there thinking about how you are losing out on business." (Potential clients, female, Durban)

"When you are in hospital, it can happen that you are unable to support your children. When you get this money you can comfort your children." (Current HCP client, with benefit of R500 or less a day, male, Durban)

When prompted, the **affordability** of HCPs (namely that it is cheaper than medical aid and that the monthly premium depends on what the holder can afford), and the fact that the **family** can be included/ covered were mentioned as additional

positive aspects.

A prominent feature of HCPs was singled out as its main disadvantage, namely the fact that it **does not pay out** if in hospital for **less than 3 days**. This was the most important change that was suggested in order to improve the product.

> *"I wish it could start the very same day you're admitted because what if I only spend a day in hospital and yet I pay all my premiums. I find it unfair."* (Potential clients, female, Johannesburg)

> *"Personally what I don't like about it is the number of days.. the fact that you need to be hospitalised for three days, before it starts paying you. You could find that my illness improves after 2 days or perhaps there is a shortage of beds and the doctor discharges me early. I would end up not getting paid then."* (Current HCP clients, with benefits of R500 or less a day, male, Durban)

Other disadvantages of HCPs mentioned included:

- The fact that it only pays out if you are hospitalised, not when you are sick at home.
- The fact that one can only submit a claim after being discharged or, in the case of prolonged hospitalisation, after every 30 days in hospital[9].
- The need for submission of doctors' reports at claim stage. Respondents felt that it can take long to get the report from the doctor.

  > *"The claims and even the forms are very complicated because they want a lot of things. When I was hospitalized I asked my doctor to complete certain documents but because they are so busy themselves it took him two weeks to complete it. They even want the order number for the cost from the time you were admitted in hospital. Yes they need proof but I'm sure they can come up with simpler ways to get it."* (Current HCP client who has claimed, with benefit of R750 or more a day, male, Johannesburg)

- The maximum limit of 180 days was regarded as unfair and respondents felt it should be removed.

[9] Most HCPs are structured in a way that the claim may only be submitted after discharge. In the case of prolonged hospitalisation, however, a person may claim after every 30 days in hospital, up to a limit of 180 days or six months.

"Let's say you have a real problem, you're probably in a coma ... Why is it only 180 days? … It's unfair that I'm going to sleep for so many days, but I'm only going to claim for 180 days. I'm not happy about that." (Potential client, female, Durban)

- Various participants felt that the waiting period should be reduced or removed.
- It was regarded as a disadvantage that people older than 70 years cannot be covered, as they need hospitals even more than others and are young people's responsibility.

"These insurance companies should think about letting us take policies which includes our elderly because they are more like our parcels and we'd like them to be covered as well." (Current HCP client, with benefit of R500 or less a day, female, Johannesburg)

- There was limited mention of the need to cover extended family.
- Respondents felt that the HCP should not lapse after two premiums have been missed and that a premium holiday of up to 6 months should be allowed.

"I saw something about missing two months and then it lapses. Hawu! Such little time, 2 months… if you find yourself out of a job, and your savings are not available within two months, does that mean you have lost out? Even after paying for a policy for years?" (Potential client, female, Durban)

- There were a few mentions in the Durban groups of claims that were rejected due to a repeat hospitalisation for the same condition. Respondents regarded this as unfair.

"The doctor told me he suspected a miscarriage and admitted me …. I actually stayed for five days and was released on a Friday. After being discharged, I started bleeding again on a Monday. So I was re-admitted for another five days. When I went to claim from my hospital plan, they didn't want to pay me. I was hospitalised for a total of ten days… When they did pay me, they only paid for two out of the five days. When I got angry and asked them about it, they told me about their policy on days. They said they started counting from the third day and they don't count the day you are discharged. Then they told me that when I returned for the second time, they couldn't count that because I had gone back for the same thing, during

the same year." (Current premium client who have claimed, female, Durban)

- Furthermore, it was mentioned that all documentation is in English and that not everything is always understood – let alone the small print.

  "Documents are written in English. You find that people don't understand the things that are excluded. So if they say that we don't pay for this, the person won't know that it's not covered." (Current standard client, new business, male, Durban)

It is interesting to note that all of the above are necessary features of a HCP (and other insurance products in general), yet lead to negative perceptions.

Similar to other types of insurance products, HCPs also suffered from the perception that insurance companies will find reasons not to pay out claims and that many terms and conditions apply that are not highlighted when the plan is sold, but appear at claim stage, resulting in a rejected claim. This leads to disillusionment and a feeling of being exploited.

Interestingly, some focus group respondents suggested limiting the number of hospital visits that can be claimed for to two per year in order to combat misuse.

3.5.4 Cover level and premiums

It was evident that some HCP policyholders were confused between the premiums paid every month and the amount of cover they have per day, premiums were interpreted as the level of cover clients have.

Overall, premiums were considered to be affordable, especially since clients can choose the premium they want to pay according to what they can afford.

> *"Premiums are low compared to what you get… you pay R200 per month for example. When you stay in hospital, you get R1000 per day… I think it's affordable."* (Current HCP client who has claimed, with benefit of R750 or more a day, female, Durban)

> *"It depends on your pocket and how much you want to pay. The more you pay, the bigger the pay out."* (Potential client, male, Durban)

When they were exposed to a generic product concept description during the groups according to which R100 premium is paid for R200 cover per day versus

R130 premium for R600 cover per day, respondents were of the opinion that the discrepancy in cover to premium ratio did not make sense. They were therefore of the opinion that the higher premium amount offers better value for money.

> *"I'd take the R130.00 to get the R600.00 rather than taking the R120.00 to get R400.00."* (Potential client, female, Johannesburg)

3.5.5 What pay-out is used for/intended for

- Current and potential clients have used or intend to use a pay-out from their HCP in various ways, ranging from daily necessities, to paying for additional medical expenses resulting from their stay in hospital through to luxuries:. Since no income will be earned during their stay in hospital, respondents across all the groups have used or intend to use the pay-out as some form of income from which immediate expenses such as groceries/food, school fees, accounts/bills/water & electricity as well as general expenses or debt incurred because of their stay in hospital (such as *"take-outs for those at home because I cannot cook for them"*, "*good, healthy food for the patient in hospital*", "*transport for family to and from the hospital*") will be paid. Most of these expenses were listed amongst the top priority expenses highlighted in section 3.1, confirming that a major reason for taking out a HCP is to provide for income replacement while in hospital.

  "When I lie in hospital that means I am not at work anymore. So there are areas that will fall short because there is no money coming in. No work, no pay. So I am trusting the money I get from the plan to help me pay at Jet, Edgars, funeral policies and other things." (Potential client, female, Durban)

  "When my wife was in hospital, we needed somebody on the side, to help us look after the children. She would get them ready for school in the morning and all that. So monies like that helped to tip those who had been assisting, while my wife wasn't close by." (Current standard client who have claimed, male, Durban)

  "Maybe if I hadn't paid the electricity bill-and it's not up to date. Phone bills, and school fees for the children. So I would fill in the gaps here and there so that life could go on." (Current standard plan, new business, male, Durban)

  "When you get sick your family spends a lot of money coming to visit you so that money would have to close that gap." (Potential client, male, Johannesburg)

- Some respondents across all the groups also mentioned that they will use or have used the pay-out to pay for medication that they may be required to take for some time after being discharged from hospital.

  "I got extra medication because I didn't get enough of it from the hospital."

(Current HCP client who has claimed, with benefit of R500 or less, female, Johannesburg)

"The HCP complements hospital expenses, covered by the medical aid. Like the medication that's dispensed when you are discharged. If it's exhausted, then you don't have money. You can only rely on the money from the HCP… There is medication that you take for months, so if its exhausted how will you pay for it?" (Current HCP client who has claimed, with benefit of R750 or more a day, female, Durban)

"Medicine because remember when you're discharged it doesn't mean you're completely healed." (Potential clients, male, Johannesburg)

- One of the main differences between those who have claimed and the rest (those who have not yet claimed and the potentials) is that a few of the latter regard the money as a bonus and dream of spending it by spoiling themselves or their family with luxuries such as entertainment, a nice pair of shoes, a handbag or a new hairdo, a holiday for the family, money for kids, , a shopping spree or even renovations at home.

  "The hospital is depressing so I'd do something to cheer me up like going to a restaurant." (Potential client, female, Johannesburg)

  "I would pay here and there, then I would have a celebration to say: "I'm back". I would pay for the hospital and then have itiye [traditional celebration] at home." (Current HCP client, with benefit of R500 or less a day, male, Durban)

- Potential clients as well as current clients who have not yet claimed also expressed the desire to save some of the money for other unexpected medical expenses or just for a rainy day.

  "So what had happened to me could repeat itself and by then I wouldn't have the finances. It's better if I save the money for the future so that I can use it if there's a need." (Current HCP client, with benefits of R500 or less a day, male, Durban)

It was evident that the pay-out of the hospital cash plan was not intended to cover the costs of the hospital. The market under investigation generally makes use of public hospitals, which charge an amount small enough to pay from their own pocket (especially when understating their income, which some seemed to regard as the norm). If not in a position to pay immediately, an arrangement will be made to pay off the account over time.

The few who belong to a medical aid will use some of their HCP pay-out to fund any shortfall between what the medical aid pays the hospital and the hospital/doctors' costs, as well as for medication and other expenses that the medical aid does not cover. The rest of the pay-out will be spent on other things mentioned above.

> *"I was in hospital and I'm failing to understand why they (medical aid) paid for half the amount because I was admitted. So the hospital (cash) plan helped me to cover those shortfalls."* (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

3.5.6 Claims experience

The majority of respondents who have already submitted a claim experienced the claims process negatively. Aspects that contributed to the negative experience were as follows:

- Besides a copy of ID, proof of hospitalisation and medical reports need to be submitted. Participants complained that the insurance company *"asks for a lot of documents all the time"* – though they realise that it is perhaps to ensure that the claimant was indeed in hospital.

  > *"They give you a lot of forms and then you go and fill them in. Then when you do, they will tell you that they are incomplete even though they're the ones who've made mistakes. It's happened to me. I took claim forms from the hospital and went home to fill them in. Then when I submitted them, they said no here's another form and I had to go back to the doctor. They didn't count the transport money I had spent."* (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

- To obtain doctors' reports is a hassle and a prolonged process, "*often one is seen by more than one doctor*"; "*doctors are busy and take long to complete the reports/forms*". In addition, participants in Durban claimed that the claimant often needs to pay the doctor and the hospital a fee to obtain copies of his/her medical report or hospital file.

  > *"If you were sleeping there and then you ask for the hospital file that the hospital plan needs, you also need to pay for it. Everything costs money. By the time the hospital plan money comes, I've had to make payments…. If you ask the doctor to fill in forms for you after having admitted you into hospital, you need money… Doctors are around R250 to R300. To get a hospital file at Ethekwini Hospital, it's R600."* (Current HCP client who has claimed, with benefit of R750 or more a day, female, Durban)

- Claim forms are complicated.

  > *"The claims and even the forms are very complicated because they want a lot of things. When I was hospitalized I asked my doctor to complete certain documents but because they are so busy themselves it took him two weeks*

to complete it. They even want the order number for the cost from the time you were admitted in hospital. Yes they need proof but I'm sure they can come up with simpler ways to get it." (Current HCP client who have claimed, with benefit of R750 or more a day, male, Johannesburg)

- Mention was also made of claims that were rejected because not all information about a medical condition was disclosed at application stage, or because the insurance company did not agree with the validity of the hospitalisation[10]. This resulted in the HCP holder feeling deprived and cheated because what was sold did not materialise at claim stage.

  "So she (wife) stayed there for 6 days. When we went to claim, they came back to me after 3 or 4 days and wanted a hospital file. I forwarded them that file and they promised me 14 days. The 14 days passed. I phoned them and they referred me to a woman who was the one dealing with my claim. She said they were in the process of declining it. So they said they would give me a letter explaining why they declined. So the letter arrived and they said the doctor wasn't supposed to admit her for so many days… My question was that if she sleeps in hospital who determines the number of days? Is it the doctor, or her or Sanlam? So right now we are still dealing with that problem and we have sent it to the lawyers." (Current HCP client who have claimed, with benefit of R500 or less a day, male, Durban)

  "They wanted the blood tests and all the results of the scans which were all in the hospital file.... Then in the end, they declined. It was my first time being hospitalised….They said I didn't disclose my illness prior to being covered…. You don't suffer from bladder problems ALL the time. It's just something that features in your life as an illness. But they said I should have disclosed whether it was my first time suffering from it. It was my first time taking the cover with this company. So should I have disclosed the time when my bladder had affected me some years ago?" (Current HCP client who have claimed, with benefit of R750 or more a day, female, Durban)

[10] The example was mentioned of an instance where a doctor prescribed that a patient needs to remain in hospital for a back problem as he needs to lie down. The insurer argued that the patient could have lied down at home as well and that the condition did not require hospitalisation. Hence the claim was rejected.

Once all the documentation is completed and submitted to the financial services company's satisfaction, pay-out happened quickly, reportedly taking anything from one to 4 days.

As a result of actual negative experience of the claims process (or word of mouth about it), some current clients considered cancelling their HCPs. They questioned the worth of paying for a HCP when they ran the risk of legitimate claims not being paid out due to the perceived prolonged and difficult to prove claims procedure

3.5.7 Lapsing of HCPs

Current and potential clients foresee that they might lapse their HCPs mainly because of financial constraints, most notably should they lose their job and not be able to afford the premium anymore.

> *"If I had to lose my job I'd let it lapse because I'd have to worry about the school fees, the rent and the food of course."* (Current HCP client who has claimed, with benefits of R500 or less a day, female, Johannesburg)

In addition, as discussed above, they might also consider lapsing/cancelling their HCP if a claim is unfairly rejected in their opinion, if they only discover at claim stage that they were not covered for something they thought they were covered for, or if they are no longer happy with the company, product and service delivery.

Another potential reason for lapsing stems from the strong need amongst the market under review to receive something back if they do not claim. This confirms the finding discussed in section 3.5.3 that a no-claims cash-back option was strongly preferred by respondents.

> *"You don't just throw your money away and let it disappear the way it does with medical aid. With medical aid even if you don't claim, your money freezes at the end of the year. The cash back plan is alright because if you don't claim after a stipulated period, you do get cash back."* (Current HCP client, with benefits of R500 or less a day, male, Durban)

Some suggested that, if they pay for a long time without being admitted to hospital and benefitting from the plan, they will feel that they are making a loss and may consider cancelling the cover. This corresponds with one of the reasons why individuals do not belong to medical aids, namely a perception that you are paying

money into a bottomless pit and not gaining anything from it, should you not claim.

3.5.8 Awareness of fraudulent claims

Interestingly, there was a clear regional distinction in terms of awareness of fraudulent claims. Most respondents in the Johannesburg groups were unaware of fraudulent claims, though some indicated that they have heard about it (through a radio discussion) or read in the newspaper about syndicates that work together and then share the money afterwards.

Contrary to Johannesburg, individuals from Durban were all aware of fraudulent claims, some even mentioning it spontaneously earlier on in the discussion. Apparently, it is a well-known practice to negotiate with doctors and pay the doctor part of the claim. Doctors would then admit people who are not sick to hospital, or falsify hospitalisation records for those not admitted. Some share the view that it is especially government employees (nurses and teachers) that are notorious offenders in this regard.

> *"People in government are good at those things… Teachers, clerks and all that. You see when the schools were closed for the holidays. For that one week, teachers were in hospital. You will see the false claims around October. But in the end, we are the ones who suffer."* (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

> *"They worked in the same office and were admitted by the same doctor on the same day, with the same diagnosis. They faxed their documents at work using the same number. That's how they were caught."* (Current HCP client who has claimed, with benefit of R750 or more a day, female, Durban)

> *"The doctors hospitalise you, but you don't go there. You stay at home….All that's needed to show that you were there, is paper work. They cover it and make it seem as if you were there. You get a cut from the money [pay-out]."* (Potential client, male, Durban)

> *"When you feel overwhelmed by debts, you can just go and sleep there."* (Potential client, female, Durban)

> *"There was another lady who is my neighbour. She was a respectable Matron. She was arrested by Old Mutual. I don't know how many of them there were, but they went and falsely claimed from the HCP. They are in the*

process of paying that money back. These are the things that they do." (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

"Sanlam is the only one that pays for depression. Out of all the insurance companies, it's the only one that covers it. So people are abusing it. People know that for depression, it is about 21 to 50 days. So the person stays in hospital without having anything wrong with them." (Current HCP client who has claimed, with benefit of R500 or less a day, male, Durban)

Current clients as well as potential clients are very aware of the negative impact that fraudulent claims already have and will have on them in future when they want to claim:

- They expect that future claims will be treated as potentially fraudulent claims and investigated thoroughly, that is, clients will have to provide extra proof that they were indeed hospitalised, including certified copies of required documents. This will result in a prolonged claims process which will delay the pay-out.

"That's why they require so many things and don't want to pay you even if you are telling the truth." (Current HCP client who has claimed, female, Durban)

- All this extra scrutinising will affect the dignity of legitimate claimants as the suspicious attitude of claims consultants will make them feel like a criminal every time they want to claim.

"When they say they have to investigate it makes me feel as if they think I'm one of those criminals." (Current HCP client who has claimed, with benefit of R500 or less a day, female, Johannesburg)

- The company will have to increase premiums in order to recover losses experienced as a result of fraudulent claims. In the end, people will bankrupt the company, that is, the company will have no money to pay out any claims.

"It could lead to an increase in premiums, because there will be a lot of claims and a shortage of funds. So in order to pay everyone, they will have

to do that. I think that affects all policy holders." (Current HCP client, with benefit of less than R500 a day, male, Durban)

The general feeling is that, ironically, the market that is in need of some form of medical cover might therefore lose one of the few opportunities to obtain such cover due to the fraudulent activities of the very same market.

In order to combat fraud, respondents made two suggestions:

i. A representative from the company at which the plan is held should visit the patient in hospital to verify hospitalisation and sickness and to complete the claim forms on behalf of the client.
ii. The creation of a bureau (similar to a credit bureau) which allows the hospital to capture the patient's information and the financial services company to verify all information from there.

4 CONCLUSIONS AND RECOMMENDATIONS

- The demographics of the HCP owners who participated in the research displayed the following profile:
  - Age skewed towards individuals older than 35 years.
  - HCP clients are not the poorest of the poor. Most of the participants with standard plans earned between R3,000 and R10,000 per month, while most of those with premium plan owners earned more than R8,000 per month, some as high as R20,000 per month or more.
  - All HCP holders involved in the research were working and as can be expected those with premium plans occupied higher level occupations compared to those who owned standard plans.
  - Most respondents' households consist of 4 or more people. Besides the person involved in the research, the household comprised a spouse/partner as well as children in primary or high school. Incidence of children in tertiary education was more evident amongst premium plan owners. Females, in particular those with standard cover levels, were more likely to be single parents.
  - The incidence of life insurance, savings/endowment policies, retirement annuities, car finance and especially medical aid is higher amongst HCP holders with premium cover levels than amongst those with standard cover. Amongst both premium and standard clients, funeral cover and bank accounts were the most widely held financial products besides HCPs.
- Although the market under investigation aspires to some kind of provision that enables them to make use of private facilities when they need medical care, current medical aid products available in the market (medical aid including hospital plans) are too expensive and therefore unaffordable to the majority of them.
- HCPs are not used to provide for medical care and hence do not substitute for medical aid: The majority of HCP customers largely make use of public

hospitals and therefore do not face large medical bills. Though they would prefer to use private hospitals, they deem medical aid as out of their reach. The research suggests that HCPs are primarily used to replace income that is lost due to hospitalisation as well as to cater for all the additional non-medical expenses that consumers incur when hospitalised. It is clear that the product is used in line with what it is intended for and as such meets a key need of this budget constrained market, namely some income (or additional income) when most in need of it.

- The research could therefore not find any evidence of “conflict” between medical aid and HCPs, for example that holders of HCPs expect hospital costs to be covered or that the few in the sample that own medical aid have considered cancelling their medical aid in favour of HCPs (those who have cancelled their medical aid, did so because of affordability constraints).
- The results suggest that the demarcation between HCPs and medical aid is sufficiently clear. However, the research did identify confusion between the terms “hospital plans” and “hospital cash plans”. Thus it may be worthwhile to review these names to remove confusion.
- The research confirms the incidence of fraud due to the nature of the claim trigger for HCPs. This was evident in KwaZulu Natal in particular.
- Finally, should the market’s need for provision of medical aid to cover use of private medical facilities be addressed, it will have to be at an affordable premium and it will have to overcome the negative perceptions that currently exist toward the restrictions of medical aid.

5 CONTACT INFORMATION

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6 APPENDIX

Please find the following documents attached:

- Discussion guides: Product suppliers / Industry bodies / Existing clients / Potential clients
- Description of a typical HCP
- Explanation of the current policy regarding the classification of patients for the determination of fees

DISCUSSION GUIDE: PRODUCT SUPPLIERS

INTRODUCTION

- Explaining process

PERCEPTION OF NEEDS OF CONSUMERS

- What are the main challenges that consumers face in terms of medical care and financing medical care and other costs resulting from illness and hospitalisation.

MEDICAL INSURANCE PRODUCTS

- What is their understanding of different medical insurance products available on the market – what does each offer/ advantages and disadvantages of each/ how they differ/ which target market they address (with specific emphasis on how HCPs fit into bigger picture)

HCP PRODUCTS

- Who are buying these products – their perception of the profile of their target market/ buyers and related reasons
    - Are there segments of the SA population that they feel really need the product, who are not buying it? If so, why? What can be done to remedy this situation?
- Why are these customers buying these products?
    - Probe use of HCPs vis-à-vis medical aids: Do they know whether their target market:
        - Owns both medical aid as well as HCP
        - Substitute HCP for medical aid (opting out of from medical aid membership in favour of HCP)
        - Or are HCPs serving a target market that would not otherwise belong to a medical aid or have any other medical cover?
- How was the product designed to be used? Do they know how customers are actually using the product?
    - If not mentioned spontaneously probe whether it may be used as an income replacement
- Is it an easy or difficult product to sell?
    - What are the most effective/ persuasive selling messages in their experience

    - Do they have to introduce and sell concept or do potential customers know about it (probe whether product is sold rather than bought)
- How well do HCPs address the medical care needs/ challenges we spoke of earlier?
- Reaction to features of HCPs in more detail
    - What do they consider to be the main advantages of HCPs?
    - What do they consider to be the main shortcomings/ disadvantages of HCPs?
    - How would you change or improve HCPs?
- Claims process
    - How long does the claims process take?
    - What docs required?
- We have heard that initial lapse rates are high. What has been your experience in this regard?
    - What do they believe are the reasons for this?
    - What can be done to address/ avoid lapses?

FUTURE OF HCPsHCP:

- How do they perceive the future of HCPs vs. medical aids?
    - Where would they want to grow the market – plans for the future?
- What do they know about the plans for revised demarcation?
    - What is their perception of the implications of revised demarcation for hospital cash plans
- Perception of the incidence and impact of fraudulent claims
    - Awareness of/ suggestions for steps taken to address fraudulent claims

DISCUSSION GUIDE: INDUSTRY BODIES

INTRODUCTION

- Explaining process
- We want to understand demarcation issue to position consumer focus groups optimally

HISTORY

- How it started
- How it unfolded
- Key moments
- Challenges along the way
- Key participants and their positions

CURRENT STATUS

- Where is the process now?
- Expected update of demarcation position and what it's likely to entail
- Burning issues/ differences of opinion
- **Implications for HCPs/ perceptions re future of HCPs**

ROLE OF HCPs

- What is your position regarding demarcation and the role of HCPs?
- What, if any, concerns do you have about HCPs?
- What do you perceive to be the value/ purpose of HCPs?
- Perception of target market – Which segments of SA population need it/ would benefit most

INTEREST IN RESEARCH

- To what extent would you find the results of our proposed research useful?
- Is there any angle/ issue/ hypotheses you would like us to cover to make it more relevant to the debate
- What is the best way to introduce / include research in debate

NATIONAL HEALTH INSURANCE (NHI)

- What can you tell us about NHI/ what are your views about it?
- How will it influence the market?

DISCUSSION GUIDE: EXISTING CLIENTS

INTRODUCTION (+- 10MIN)

- Welcome and explain process
- Round of introductions

ROLE OF MEDICAL EXPENSES IN OVERALL BUDGET (+- 30MIN)

- Generate list of items (on flipchart) of the typical expenses they need to provide for (for their household/ themselves)
- Focus on anything related to medical/health and probe in more detail
  - How do you meet medical expenses
  - What challenges have you experience in this regard
- Current medical needs and how they are addressed (20+min on this part)
  - Elicit examples/ stories of recent health issues faced in their family and how it was approached/ resolved
  - Who do you approach when you need medical help and why
    - Clinic
    - Hospital (public or private)
    - Pharmacy
    - Traditional healer
    - Doctor in private practice
  - Examples/ stories of hospitalisation experiences – illness, operations, confinement
    - Probe challenges; unexpected expenses faced and how it was resolved

INSURANCE PORTFOLIO OWNED (+- 30min)

- Generate list of all the types of insurance they own and high level discussion of priorities in this regard
  - What was the first product you acquired and why
  - What is your next priority – if you budget for/ can afford more insurance, what would you buy next and why
- Focus on medical insurance products (20+min on this part)
  - Determine awareness of different medical insurance available on the market

- Determine understanding of different medical insurance available on the market – what does each offer/ advantages and disadvantages of each/ how they differ/ do they fulfil different roles?
  - Medical aid
  - Hospital plans
  - Gap cover
  - HCPs
  - Critical illness cover
- During above discussion probe:
  - Those who have medical aid: Why do you have medical aid and HCP? How do you use each? What needs are covered by medical aid and what needs are covered by HCP?
  - Those who do NOT have medical aid: Why did you choose to have HCP and not medical aid? Did any have medical aid in the past but stopped membership and why? Are any considering becoming members of medical aid in the future and why?
  - Under what circumstances is it better to have medical aid?
  - Under what circumstances is it better to have HCP?

FOCUS ON HCP PRODUCTS (+- 30min)

- How did you first become aware of this product
- Buying process dynamics
  - How did it come about that you bought this product?
  - Were you approached (and if so by whom?) or did you approach company?
  - How did you experience the buying process? Positives and negatives
- Why did you decide to buy this product? What were the compelling reasons that persuaded you that it is a good idea to buy this product?
- Reaction to features of HCPs in more detail
  - What do you like about HCPs – what are their advantages?
  - What do you not like about HCPs – what are their shortcomings/ disadvantages?
  - How would you change or improve HCPs?
  - If not mentioned spontaneously probe:
    - Satisfaction with their cover level (Awareness of different cover levels and how/why did they choose their cover level)

        - Awareness that for most HCPs the benefits are only payable for hospital stays of 3 days and longer
        - Reaction to HCP premium levels. Are HCPs considered to offer good value for money or not? Why?
- Who/ what type of people would benefit most from HCPs s and why?
    - Should the product be adapted in any way to suit the needs of those who need it most/ would benefit most?
- Experience of claims or word-of-mouth of friends/ family who may have claimed
    - Satisfaction with product after claim experience – was expectations met or not and why?
    - If you/ family member on your HCP are hospitalised in the near future and you claim against your HCP, how will you spend the pay-out? (If not mentioned spontaneously probe whether pay-out will be used to pay for medical expenses or other incidental expenses (what) or just to supplement shortfall, lack of income)
- Do you know people whose HCPs lapsed? What were their reasons for letting it lapse? Under what circumstances would you let your HCP lapse?

CONCLUSION (+- 5 min)

- I have heard that some people misuse HCPss and hand in false claims
    - Awareness/ word-of-mouth of fraudulent claims practices
    - Reaction – do they feel that it impacts on them and if so – how/ why

FOLLOW UP PROBES (+- 5 min)

- Any follow up probes from observers who have viewed the discussion

DISCUSSION GUIDE: EXISTING CLIENTS (HAVE CLAIMED)

INTRODUCTION (+- 10MIN)

- Welcome and explain process
- Round of introductions

ROLE OF MEDICAL EXPENSES IN OVERALL BUDGET (+- 30MIN)

- Generate list of items (on flipchart) of the typical expenses they need to provide for (for their household/ themselves)
- Focus on anything related to medical/health and probe in more detail
  - How do you meet medical expenses
  - What challenges have you experience in this regard
- Current medical needs and how they are addressed (20+min on this part)
  - Elicit examples/ stories of recent health issues faced in their family and how it was approached/ resolved
  - Who do you approach when you need medical help and why
    - Clinic
    - Hospital (public or private)
    - Pharmacy
    - Traditional healer
    - Doctor in private practice
  - Examples/ stories of hospitalisation experiences – illness, operations, confinement
    - Probe challenges; unexpected expenses faced and how it was resolved

INSURANCE PORTFOLIO OWNED (+- 30min)

- Generate list of all the types of insurance they own and high level discussion of priorities in this regard
  - What was the first product you acquired and why
  - What is your next priority – if you budget for/ can afford more insurance, what would you buy next and why
- Focus on medical insurance products (20+min on this part)

- Determine awareness of different medical insurance available on the market
- Determine understanding of different medical insurance available on the market – what does each offer/ advantages and disadvantages of each/ how they differ/ do they fulfil different roles?
  - Medical aid
  - Hospital plans
  - Gap cover
  - HCPs
  - Critical illness cover
- During above discussion probe:
  - Those who have medical aid: Why do you have medical aid and a HCP? How do you use each? What needs are covered by medical aid and what needs are covered by HCP?
  - Those who do NOT have medical aid: Why did you choose to have HCP and not medical aid? Did any have medical aid in the past but stopped membership and why? Are any considering becoming members of medical aid in the future and why?
  - Under what circumstances is it better to have medical aid?
  - Under what circumstances is it better to have HCP?

FOCUS ON HCP PRODUCTS (+- 30min)

- How did you first become aware of this product
- Buying process dynamics
  - How did it come about that you bought this product?
  - Were you approached (by whom?) or did you approach company?
  - How did you experience the buying process? Positives and negatives
- Why did you decide to buy this product? What were the compelling reasons that persuaded you that it is a good idea to buy this product?
- Reaction to features of hospital cash plans in more detail
  - What do you like about HCPs – what are their advantages?
  - What do you not like about HCPs – what are their shortcomings/ disadvantages?
  - How would you change or improve HCPs?
  - If not mentioned spontaneously probe:
    - Satisfaction with their cover level (Awareness of different cover levels and

how/why did they choose their cover level)
        - Awareness that for most HCPs the benefits are only payable for hospital stays of 3 days and longer
        - Reaction to HCP premium levels. Are HCPs considered to offer good value for money or not? Why?
- Who/ what type of people would benefit most from HCPs and why?
    - Should the product be adapted in any way to suit the needs of those who need it most/ would benefit most?
- Experience of claims
    - Circumstances of claim: Who was hospitalised and why? Length of stay?
    - What documentation is required to claim and how difficult or easy was it to claim? (Avoid long stories/ complaints about specific companies/ cases)
    - How long after the claim did they receive the pay-out? How did they finance medical/hospital bills and/or other expenses in the meantime until they received the pay-out?
    - How did you spend the pay-out?
        - If not mentioned spontaneously probe whether pay-out was used to pay for medical expenses or other incidental expenses (what) or just to supplement shortfall/lack of income
        - If the pay-out was used to cover medical expenses, what proportion of the expenses was covered? If it did not cover everything, how did they cover the rest?
    - Satisfaction with product after claim experience – was original expectations met or not and why?
- Do you know people whose HCPs lapsed? What were their reasons for letting it lapse? Under what circumstances would you let your HCP lapse?

CONCLUSION (+- 5 min)

- I have heard that some people misuse HCPs and hand in false claims
    - Awareness/ word-of-mouth of fraudulent claims practices
    - Reaction – do they feel that it impacts on them and if so – how/ why

FOLLOW UP PROBES (+- 5 min)

- Any follow up probes from observers who have viewed the discussion

DISCUSSION GUIDE: POTENTIAL CLIENTS

INTRODUCTION (+- 10MIN)

- Welcome and explain process
- Round of introductions

ROLE OF MEDICAL EXPENSES IN OVERALL BUDGET (+- 30MIN)

- Generate list of items (on flipchart) of the typical expenses hey need to provide for (for their household/ themselves)
- Focus on anything related to medical/health and probe in more detail
  - How do you meet medical expenses
  - What challenges have you experience in this regard
- Current medical needs and how they are addressed (20+min on this part)
  - Elicit examples/ stories of recent health issues faced in their family and how it was approached/ resolved
  - Who do you approach when you need medical help and why
    - Clinic
    - Hospital (public or private)
    - Pharmacy
    - Traditional healer
    - Doctor in private practice
  - Examples/ stories of hospitalisation experiences – illness, operations, confinement
    - Probe challenges; unexpected expenses faced and how it was resolved

INSURANCE PORTFOLIO OWNED (+- 30min)

- Generate list of all the types of insurance they own and high level discussion of priorities in this regard
  - What was the first product you acquired and why
  - What is your next priority – if you budget for/ can afford more insurance, what would you buy next and why
- Focus on medical insurance products (20+min on this part)
  - Determine awareness of different medical insurance available on the market
  - Determine understanding of different medical insurance available on the market – what does each offer/ advantages and disadvantages of each/ how

they differ/ do they fulfil different roles?

- Medical aid
- Hospital plans
- Gap cover
- HCPs
- Critical illness cover

- I understand that none of you currently belong to a medical aid or own a HCP
  - Why have you chosen not to have any medical cover?
  - Did any of you have a medical aid/HCP in the past but stopped membership and why?
  - Are any considering becoming members of medical aid/ buying a HCP in the future and why?
  - Under what circumstances is it better to have medical aid?
  - Under what circumstances is it better to have a HCP?

FOCUS ON HCP PRODUCTS (+- 30min)

I would now like to focus on HCPs and find out what you know about these products.

- How did you first become aware of this product? Where did you hear about it?
- What do you know about HCPs?
  - How do they work/ what benefits do they offer?
  - What are their shortcomings?
  - Where and how can one buy them?
- Seeing that none of you currently own a HCP and we don't all know all the details about these products, I am now going to share more information about these products. HAND OUT AND READ HCP PRODUCT CONCEPT
  - Based on what you have just read in this description:
    - What do you like about HCPs – what are their advantages?
    - What do you not like about HCPs – what are their shortcomings/ disadvantages?
    - How would you change or improve HCPs to suit your needs better?
    - If not mentioned spontaneously probe:
      - Reaction to different cover levels
      - Reaction to fact that most HCPs only pay out for hospital stays of 3

days and longer

- Reaction to HCP premium levels. Are HCPs considered to offer good value for money or not? Why?

- Who/ what type of people would benefit most from HCPs and why?
  - Should the product be adapted in any way to suit the needs of those who need it most/ would benefit most?
- Have you heard stories from friends/ family who may have claimed from their HCPs?
  - Satisfaction with product after claim experience – was expectations met or not and why?
  - If you/ family member on your HCP are hospitalised in the near future and you claim against your HCP, how will you spend the pay-out? (If not mentioned spontaneously probe whether pay-out will be used to pay for medical expenses or other incidental expenses (what) or just to supplement shortfall, lack of income)
- Do you know people whose HCP lapsed? What were their reasons for letting it lapse? Under what circumstances would you let your HCP lapse?

CONCLUSION (+- 5 min)

- We have heard that some people misuse HCPs and hand in false claims
  - Awareness/ word-of-mouth of fraudulent claims practices
  - Reaction – do they feel that it impacts on them and if so – how/ why

FOLLOW UP PROBES (+- 5 min)

- Any follow up probes from observers who have viewed the discussion

GENERIC PRODUCT DESCRIPTIONS

These generic product descriptions were introduced after the confusion between hospital plans and HCPs was identified during the first day of groups. They were only used after spontaneous understanding of different types of medical insurance products was explored. They were read out (blindly) to respondents and they were then asked which kind of product was being described.

MEDICAL AID

- You are covered for hospitalisation as well as day to day medical expenses such as visits to the doctor or dentist and medicines from the pharmacy.
- The exact amount you owe the hospital or doctor is paid directly to them.
- Some doctors want you to pay first and then you claim the amount back.

HOSPITAL PLAN

- You are covered for hospitalisation only. You are NOT covered for any other day to day medical expenses or medication.
- The total amount of your hospital account is paid directly to the hospital.

HCP

- This product pays out an amount when you have been hospitalised.
- The money is not paid to the hospital. The money is paid to you and you can use it for any of your needs.
- The amount that is paid out depends on the cover level you chose and the number of days you are in hospital.

DESCRIPTION: TYPICAL HCP

- A HCP is a type of insurance that pays out an amount when you are hospitalised. It is not a medical aid and the money is not paid to the hospital. The money is paid to you and you can use it for any of your needs.
- The pay-out is based on how many days you stayed in hospital. Most hospital cash back plans only pay out if you were in hospital for a minimum of 3 days and longer, up to a maximum of 180 days (roughly 6 months). In other words if you stay in hospital for one or two days only, you cannot claim. If you stay in hospital for longer than 180 days, you can only claim for the first 180 days.
- You choose your cover level (the amount for which you want to be covered per day) and pay a monthly premium
- You can either cover just cover yourself, or you can choose to cover yourself, your partner and your children
- Just like with other insurance products, the HCP will lapse if you miss two consecutive payments
- Just like with other insurance products there is a waiting period before you can claim if you go to hospital for illness or to have a baby. There is no waiting period if you land in hospital due to an accident.
- You claim after you have been discharged from hospital, or in the case of very long stay, after every 30 days. Documentation required include:
  - Claim form and copy of your ID
  - Hospital account
  - Report from doctor that treated you in hospital
- You can qualify for a hospital cash back plan if:
  - You are a South African citizen or legal permanent resident
  - You have a South African bank account
  - You are 18 – 60 (some 70) years old
- Some HCPs have added benefits such as:
  - Cash back – you get a percentage of your premiums back after every 5 years provided all your premiums were paid.
  - Accidental Death or Disability Benefit – you get a once–off lump sum payment should you die or become disabled in an accident before a certain age.
  - Double benefits for the days you are in Intensive Care

Example of cost of typical HCP:

Sipho is 37 years old. His partner Lerato is 35 years old and they have 2 kids. Sipho can choose to only cover himself or he can cover himself and his family.

Cover level (Amount that will be paid per day if Sipho, Lerato or their children are in hospital)	R 200	R400	R600
Premium per month for Sipho only	R100	R120	R130
Premium per month for the family	R150	R200	R250

EXPLANATION OF THE CURRENT POLICY REGARDING THE CLASSIFICATION OF PATIENTS FOR THE DETERMINATION OF FEES

UPFS Tariff Structure

		Amount paid by patient	
Level	Means Test	Consults	Other
H0	Unemployed, Social Pension, Government Subsidies	0%	0%
H1	Individual less than R 3 000 , Household less than R 4 167	20%	20% for consultations, 1% of UPFS general ward day tariff, maximum 7 days for each 30 days in hospital.
H2	Individual R 3 001 - R 6 000, Household R 4 168 - R 8 333	70%	70% for consultations, 7% of UPFS per day for in-patient stays, differentiation by bed type.
H3	Individual more than R 6 001, Household more than R 8 334	100%	100% (full UPFS rate)

Source: UPFS, 2012.

Source: Lighthouse Actuarial Consulting. 2012. *Review of the South African Market for Hospital Cash Plan Insurance.* [Online]. Available: http://cenfri.org/health-insurance-and-financing/review-of-the-south-african-market-for-hospital-cash-plan-insurance?highlight=YTozOntpOjA7czo4OiJob3NwaXRhbCI7aToxO3M6NDoiY2FzaCI7aToyO3M6MTM6Imhvc3BpdGFsIGNhc2giO30=