Focus Note
South African Market for Hospital Cash Plan Insurance

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What is a Hospital Cash Plan?

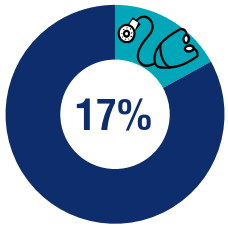
Hospital cash plans (HCPs) are insurance products provided under the Long Term and Short Term Insurance Acts and regulated by the Financial Services Board (FSB). They provide a pre-defined benefit to the policyholder in the event of hospitalisation. Benefits must be paid directly to the policyholder, are not directly related to the cost of care and are usually determined by the length of stay in the hospital.

This distinguishes HCPs from medical aid products provided by medical schemes. A medical scheme is a non-profit mutual benefit society of pooled member funds, regulated by the Council for Medical Schemes (CMS) under the Medical Schemes Act. Benefits are indemnity based and are usually paid directly to the service provider. Products are designed to meet the actual cost of health care treatments for members within the scheme's rules and benefit structure.

Why are Hospital Cash Plans important in South Africa?

Very few South African adults belong to a medical aid (16.8% in 2012 according to CMS). The lack of take up can be largely attributed to affordability, as evidenced by the correlation between Living Standards Measure (LSM) and medical aid coverage shown in the figure below.

South Africans who belong to a medical scheme



Incidence of medical aid cover correlates with LSM category

While the medical schemes market succeeds in funding quality health care the figure above highlights that it fails to make it accessible to the majority of the population. While all South Africans can attend a public hospital, few can do so free of charge. They also face additional expenses while in hospital in the form of lost income, transport costs, food and other incidentals.

A FinMark Trust review[1] of the South African Market for Hospital Cash Plan Insurance completed in 2012 illustrates the **potential** for hospital cash plan products to provide financial **protection** to those that are **unable to afford medical scheme membership**, but still incur significant costs or co-payments at a public facility.

1 Conducted by Lighthouse Actuarial Consulting. Available at: http://www.finmark.org.za/wp-content/uploads/pubs/HospitalcashPlanInMrktRev_124.pdf

Most people will incur co-payments and/or non-medical expenses while in a state hospital

The study estimated there to be between **1 million and 1.5 million HCP policies in effect**, with total lives covered in the region of **2.4 million people**. The majority of policyholders are in the LSM 4 – 7 brackets, and more than **55% of HCP beneficiaries are between 20 and 40 years old**. There are between **30 and 40 insurers providing HCPs**.

HCPs however do not always sit comfortably within the current regulatory landscape and there is an ongoing policy debate regarding the demarcation between medical schemes and insurance products such as HCPs and gap cover (insurance to cover the shortfall between actual medical expenses and that which a medical aid covers). At the heart of this conflict is the inability of the medical schemes industry to extend cover to the lower income portion of the market.

Market for HCPs: Quick Facts

30 to 40 insurers

Underwrite between 1m to 1.5 m policies

Cover 2.4 million people

Majority are between 20 – 40 years old and in LSM 4 – 7

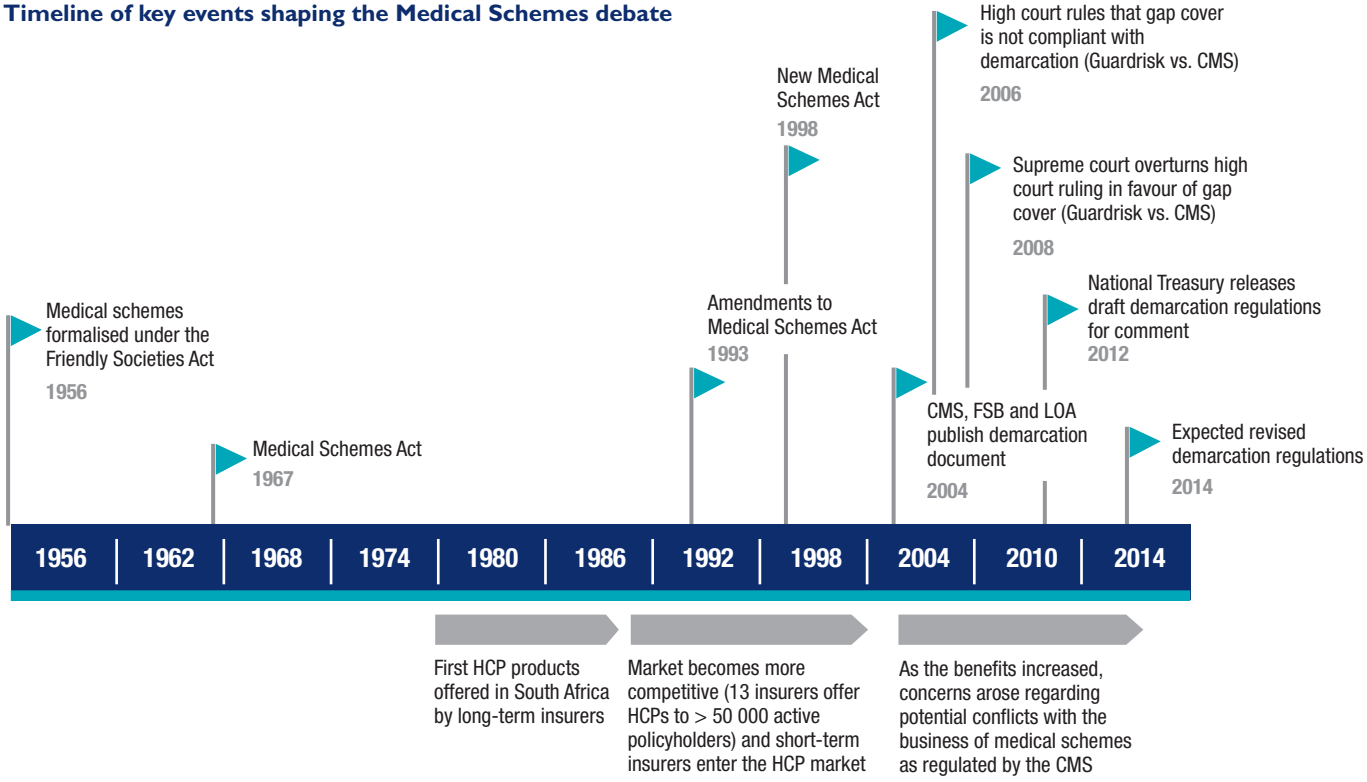
Why are regulators concerned?

The timeline below highlights the key regulatory events impacting on the market for hospital cash plans. There has been a long history of regulation associated with medical schemes in South Africa, but the conflict between HCPs and medical schemes only emerged as an issue in the late 1990s/ early 2000s, when concerns arose that some insurance products were infringing on the business of a medical scheme.

In 2004 the CMS, FSB and the Life Offices' Association (LOA), as the industry representative body for long-term insurers was then called, released a demarcation document to provide clarity regarding the definition of the "business of a medical scheme" as defined in the Medical Schemes Act. The aim of this initial demarcation agreement was to protect medical schemes and ensure that the core principles of solidarity and community rating were not undermined by the risk-rated approach of health insurance products.

This was followed by a court ruling against an insurer providing gap cover as crossing the demarcation divide in 2006. This ruling was however overturned by the supreme court in 2008, paving the way for more gap cover and HCP offerings on the market.

Timeline of key events shaping the Medical Schemes debate



In March 2012, National Treasury released draft regulations for public comment on the proposed revised demarcation between medical schemes and health insurance that would have had far reaching implications for gap cover and HCP products.

The draft regulations saw widespread reaction from the market and received a significant amount of media attention. Taking into account the submissions received, National Treasury refined its position and in October 2013 released a press statement to provide an update on the plans for the second draft revised demarcation regulations, which are expected to be implemented in 2014. 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 them". The intention is to ensure that medical schemes are not compromised.

But do HCPs in practice compromise medical schemes? What are the driving forces for consumers to buy a hospital cash plan? To what use do customers put pay-outs from these plans, what needs do they address? Are customers substituting hospital cash plans for medical aid membership, or are hospital cash plans serving a target market that would not otherwise belong to a medical aid?

The client perspective

Focus group research among current and potential HCP clients shows that the respondents aspire to use products that enable them to make use of private facilities when they need medical care, as quality of care and service is often poor at public facilities:

He took me to the hospital and I was admitted. 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 group, Durban

Current HCP client, with benefit of below R500 a day, male group, Durban

If you have money, you go to the doctor. If you don't, you go to the hospital, but it takes long to get help there.

However, current medical aid products available in the market are unaffordable to the majority of respondents.

HCP clients clearly understand the difference between a hospital cash plan and a medical aid to lie in the fact that an HCP pays a cash amount to the policyholder, whereas a medical aid covers the cost of medical care and reimburses the healthcare provider directly.

The few respondents who have both medical aid and a hospital cash plan, see their hospital cash plan as a form of top-up cover. They indicated that they use their medical aid to cover medical expenses, while their hospital cash plan payout is used to cover any additional expenses or shortfalls that may arise at home during or after hospitalisation.

Current HCP client, with benefit of R750 or more, male group, Johannesburg

Even if you have medical aid, it does not cover everything they only pay for a certain portion.

Because the medical aid doesn't cover some of the expenses that you might need when you're in hospital.

Current HCP client, with benefit of R750 or more, male group, Johannesburg

Current HCP client, with benefit of below R500 a day, male group, Durban

A cash back plan should really be a backup plan. It shouldn't be the only thing that you have, because it doesn't help you when you get to the hospital.



Most respondents, however, did not have a medical aid. They would typically make use of public healthcare facilities, where the co-payment is limited. For them, HCPs are a means of ensuring some income in the event of hospitalisation or to cover other, non-medical expenses that arise when in hospital, such as transport costs, food, toiletries or additional medication once discharged. Sometimes, the payout is also used towards expenses not related to the hospitalisation:

"Stuff like school fees, crèche and so on."

Current HCP client who has claimed, with existing benefit of R750 or more, male group, Johannesburg

"I paid my debt."

Current HCP client who has claimed, with existing benefit of R750 or more, male group, Johannesburg

Two aspects stand out across groups as the main advantages of hospital cash plans: 1) the cash that is paid out to the policy holder can be used for any immediate expenses; and 2) the perceived peace of mind that it provides.

"I am self-employed, so it will help me patch up here and there because everything will come to a standstill while I am in hospital."

Potential HCP client, female group, Durban

Potential HCP client, female group, Durban

"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."

The HCP market is not perfect and reports of fraud and delays in claims pay-outs have left some respondents with a generally negative perception.

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

Current HCP client, with benefit of R750 or more, male group, Johannesburg

Current HCP client, with benefit of below R500 a day, male group, Durban

"I also think it [fraud] 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."

In summary

The research suggests that hospital cash plans 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. Rather than serving as a substitute for medical aid, HCPs complement medical aid for those who can afford medical scheme membership. For those who cannot afford medical aid, it is a matter of "something is better than nothing".

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