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The Financial PLANNER

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2 CPD POINTS

FPI members can claim 2 CPD points for this edition.

Three main health insurance product categories are affected by the regulations and include the following:

1. Medical Expense Shortfall policies (Gap Cover products)

These policies cover the shortfall between medical scheme benefits and the rates that private medical service providers may charge.

1.1 Policy contract description:

1.1.1 Policy benefits are provided if a health event occurs that was contemplated in the contract as a risk event. This refers mainly to medical and surgical procedures and treatment performed in an in-hospital setting.

1.1.2 The policy provides cover for the full or partial difference between the amount paid by a medical scheme (medical scheme tariff) and the total costs or expense of relevant healthcare expenses.

1.2 Policy benefit limits:

1.2.1 Policy benefits include one or more sums of money.

1.2.2 Policy benefits may not exceed R150 000 per insured person per year.

2. Non-medical expense cover as a result of hospitalisation (Hospital Cash Plans)

These policies pay out a stated benefit upon hospitalisation, usually per day spent in hospital. The stated benefit is unrelated to the actual cost of any medical service as it is aimed at covering incidental costs, such as loss of income.

2.1 Policy contract description:

2.1.1 Policy benefits are provided if a health event results in hospitalisation and is considered to be a risk event under the policy.

2.1.2 The policy covers non-medical expenses associated with hospitalisation.

2.2 Policy benefit limits:

2.2.1 Policy benefits relate to a fixed amount and limited to a maximum of R 3 000 per day in hospital or, in the case off a lump sum, an amount that does not exceed R20 000 per insured per year, irrespective of the number of days hospitalised.

2.2.2 Benefits become payable from day one of hospitalisation where hospitalisation is for a period of longer than three days.

2.2.3. Benefits are only payable to the insured and not to the healthcare provider.

3. Primary healthcare insurance policies

These policies provide limited medical service benefits often including general practitioner visits, acute and chronic medication, dentistry, optometry and emergency medical care. They are often aimed at employer groups or bargaining councils.

Under the new regulations these policies are no longer allowed to continue. Going forward they will be required to transition to Low Cost Benefit Options, regulated by the Medical Schemes Act. The Minister of Health has requested the CMS to grant a two year exemption to these polices starting on 01 April 2017, while further research led by the Department of Health develops the Low Cost Benefit Option (LCBO) guideline. Once the LCBO framework is in place, these policies will be required to transition.

4.Commissions and Underwriting conditions

The new Regulations now impose a sliding scale on the commission payable for accident and health policies where, if the monthly premium is more than R300 per month then the maximum commission payable reduces from 20% on a sliding scale, to a maximum of 5% for premiums above R1 200 per month.

Whilst insurers are required to underwrite these products on a group basis and may not discriminate based on age, they can charge policyholders over a specific age category, a higher premium.

Waiting periods, very similar to those imposed by medical schemes may also be applied:

- General waiting period of up to three months, and
- Condition-specific waiting period of up to 12 months

Insurers also need to comply with certain marketing and disclosure requirements to ensure that consumers do not confuse these products with medical scheme benefits, as well as to submit all details regarding their product offering and marketing material to the Registrar of Medical Schemes for approval.

4. Effective date

The Regulations come into effect on 01 April 2017. On this date all new health policies and accident and health policies written under the LTIA and STIA will need to comply with the requirements set out in the Regulations.

Existing policies will be expected to align with the Regulations as to when such contracts are varied or renewed, and by no later than 01 January 2018.

5. Conclusion

The intention of the Regulations is to protect consumers from confusing health insurance products with the cover offered by medical schemes. These policies are not able to cover the lion's share of health care expenses but only supplement a fraction of the total costs, often resulting in significant shortfalls for unsuspecting consumers. By exempting Gap Cover products and Hospital Cash Plans, the regulators acknowledge that these policies, unlike Primary Healthcare policies, complement medical scheme cover and provide an additional layer of protection against shortfalls for consumers.

Of concern is the position taken by the regulators on the future role of Primary Healthcare insurance policies. Whilst it is acknowledged that these products do not offer the same, or similar protection to consumers as does medical scheme cover, it is also widely accepted that the cost of medical scheme cover prohibits many low income earners from entering the system and exposes this category of consumers to significant risk.

Industry stakeholders are generally sceptical as to whether the two year exemption period granted to these products will be used constructively by the Ministry of Health and the Regulator of Medical Schemes to finalise a LCBO framework to replace this category of health insurance. A constitutional challenge of this piece of regulation should also not be discounted depending on progress made in over the next two years.