

insight

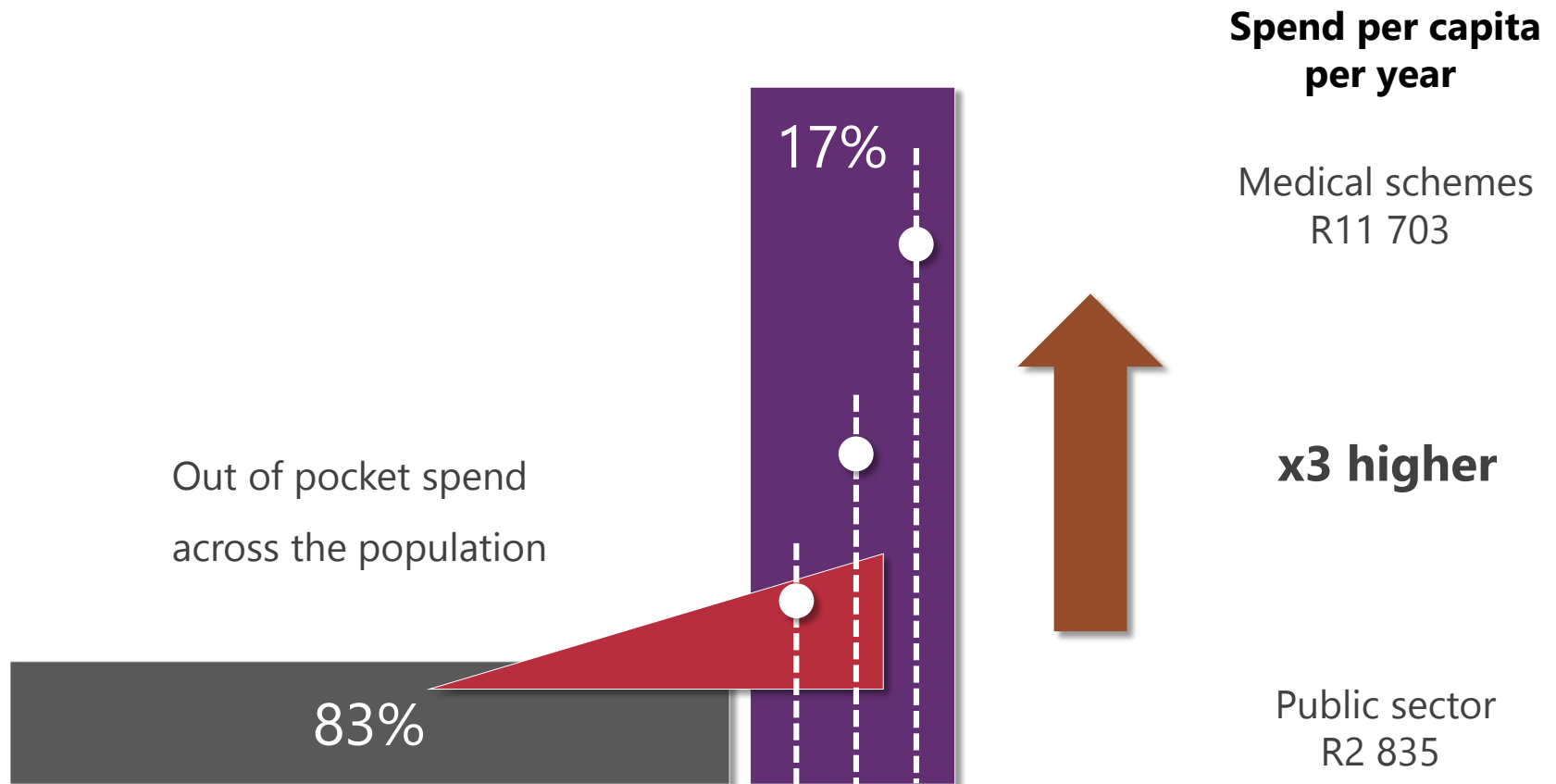
CMS Indaba – Low Cost Benefit Options

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12 March 2015

# Two health systems in one

The skewed health system reflects the broader economy



# Regulatory landscape lingers in limbo

## National Health Insurance



## Medical Schemes Act

### **MEDICAL SCHEMES ACT NO. 131 OF 1998**

[ASSENTED TO 20 NOVEMBER, 1998]  
[DATE OF COMMENCEMENT: 1 FEBRUARY, 1999]

*(English text signed by the President)*

## Demarcation



**NEW DATE FOR RELEASE OF FINAL REGULATIONS ON THE DEMARCATION  
BETWEEN HEALTH INSURANCE POLICIES AND MEDICAL SCHEMES**

## Market inquiry





Stated intention of LCBOs

*Address the uninsured and specifically the lower  
income earning market*



# Two themes to explore

Affordability

Structural challenges

# Two themes to explore

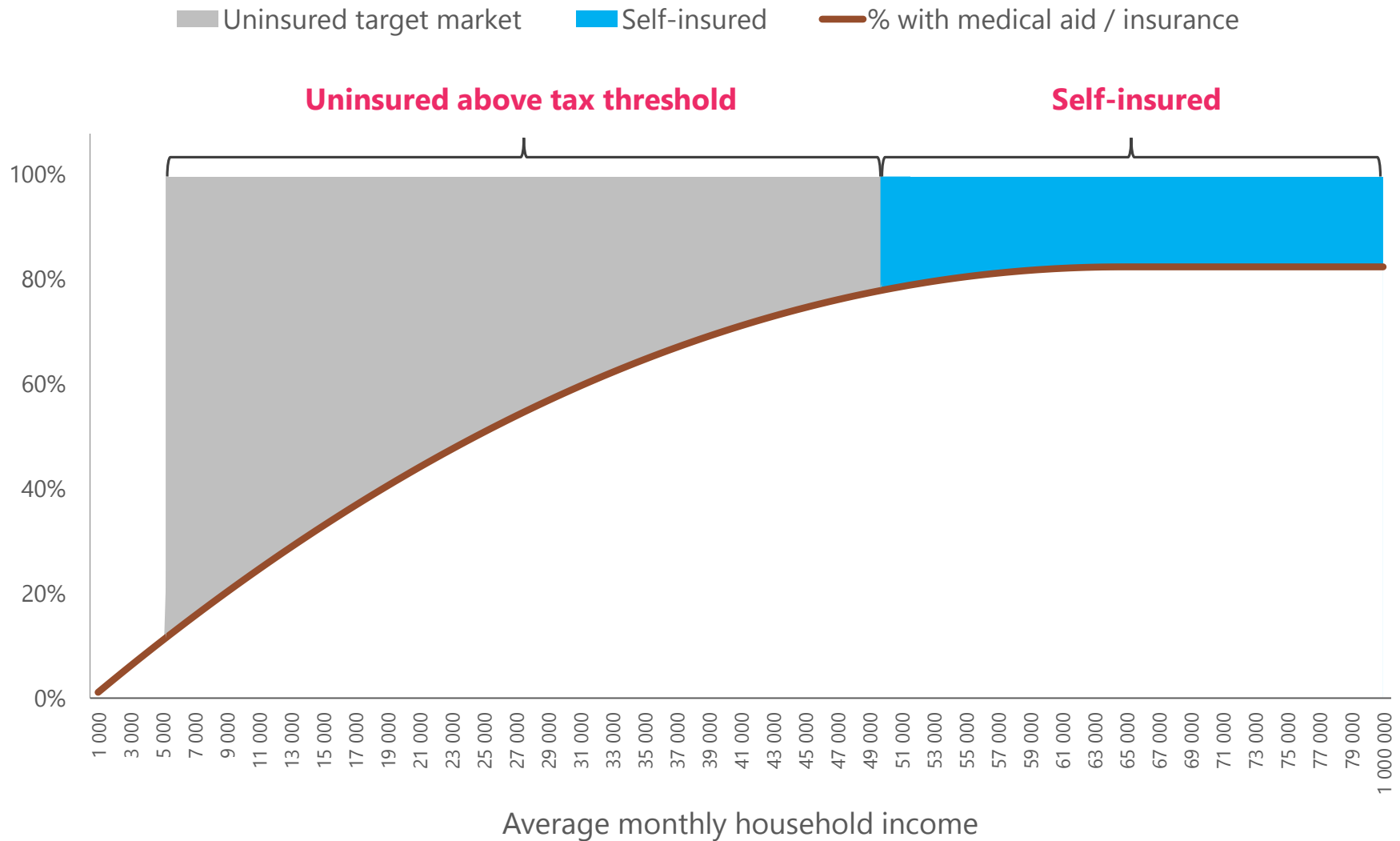


## **Affordability**

Structural challenges

# Contextualising the affordability issue

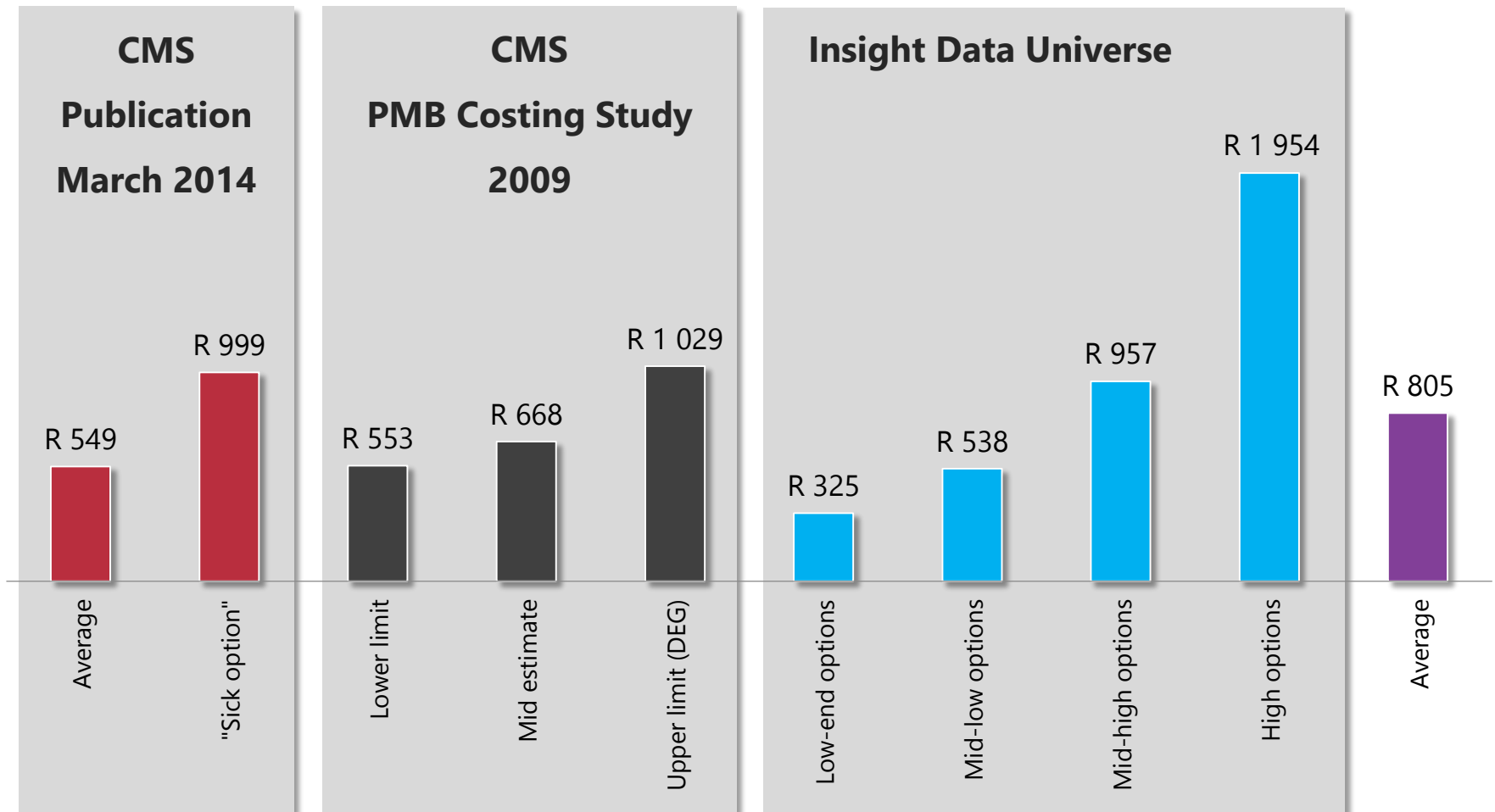
(Graph smoothed)



# PMBs present a floor cost to scheme cover

## PMB cost estimates

(cost per life pm, 2014 money terms)



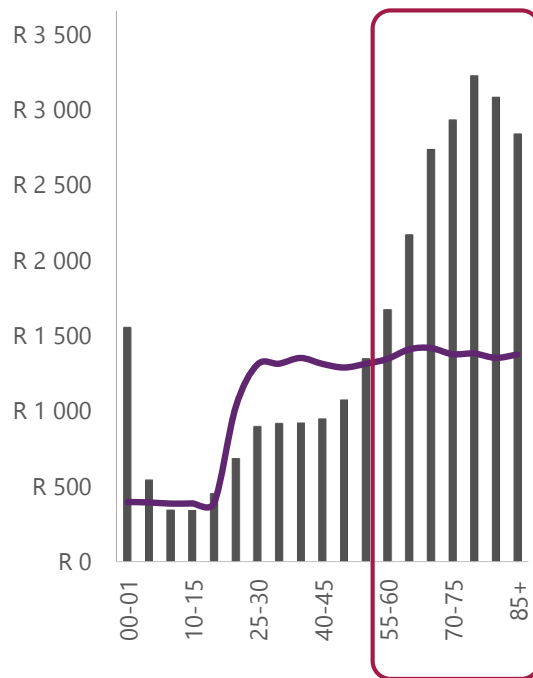


# Compounded by persisting problems

## Anti-selection

(mandatory membership, underwr. etc.)

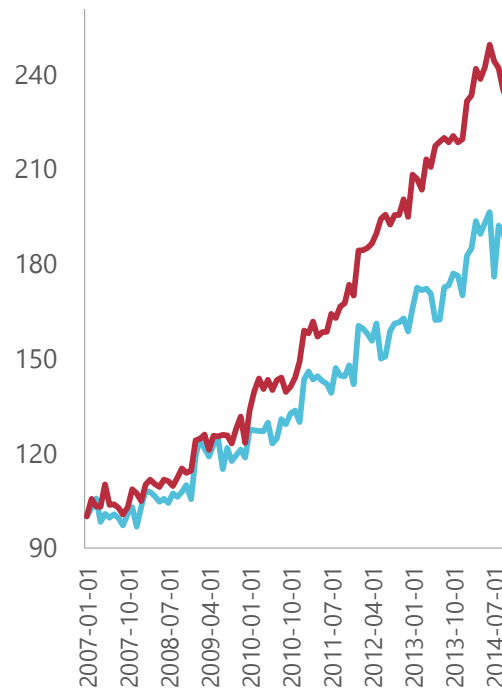
■ Claims and expenses



## PMBs at cost

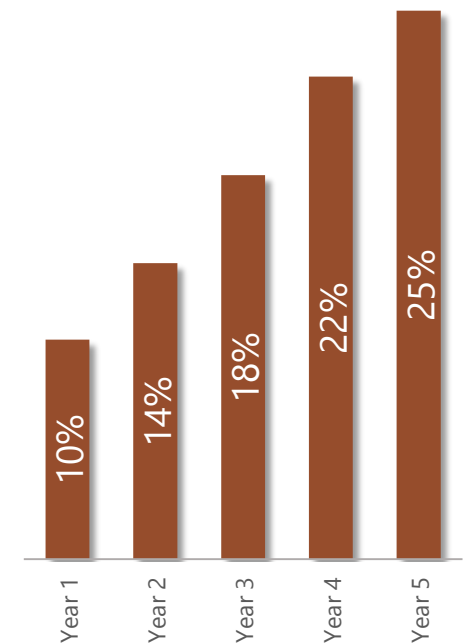
(currently being contested)

— Non-PMB  
— PMB



## Solvency regulation

(Reserves % of gross annual contributions)



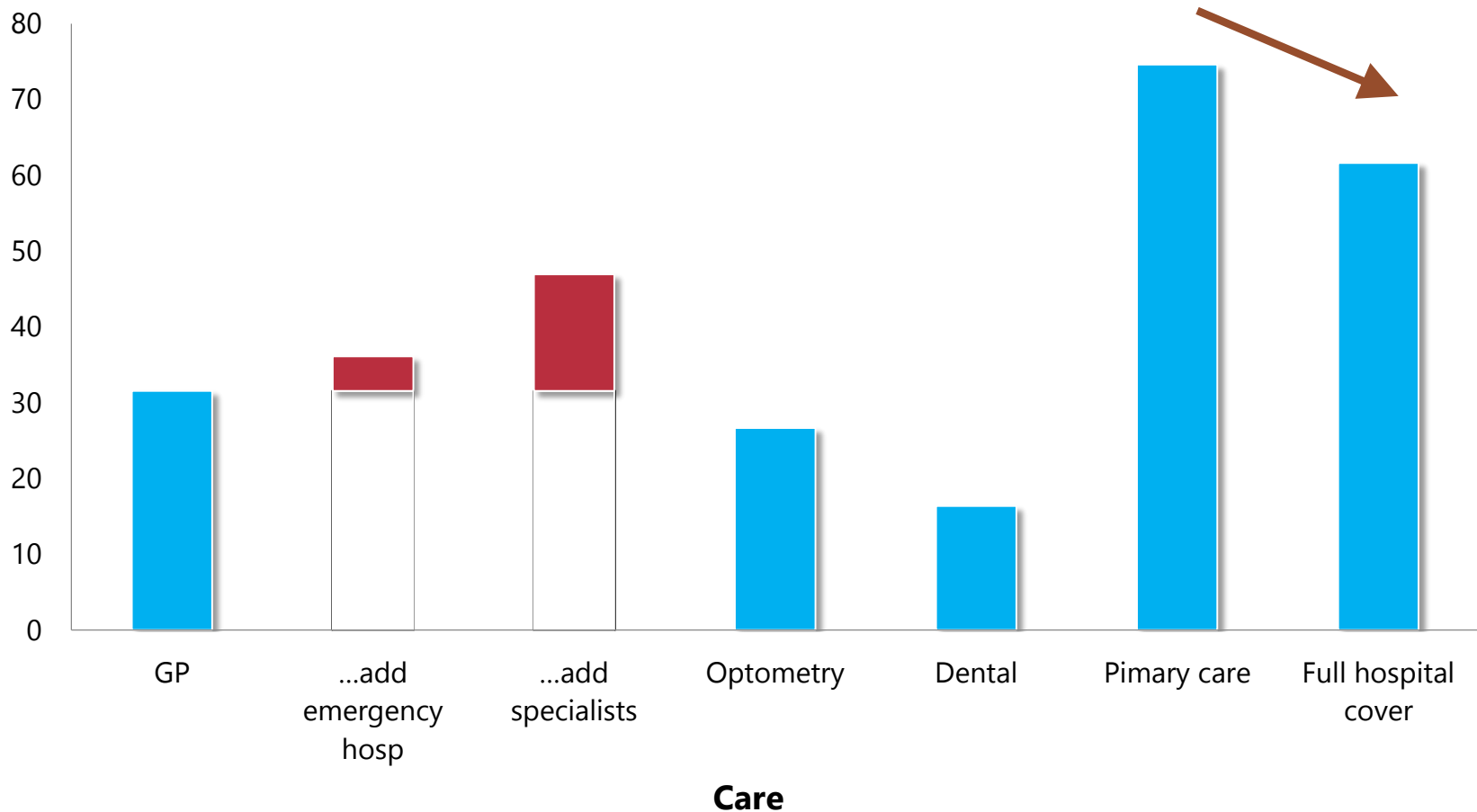
A black and white photograph of a group of people, likely in a rural setting, with a large red text overlay '4-8m' at the top. The image shows several individuals, including men and women, some wearing hats, standing in front of a building. The text '4-8m' is prominently displayed in a large, bold, red font at the top of the image.

# 4-8m

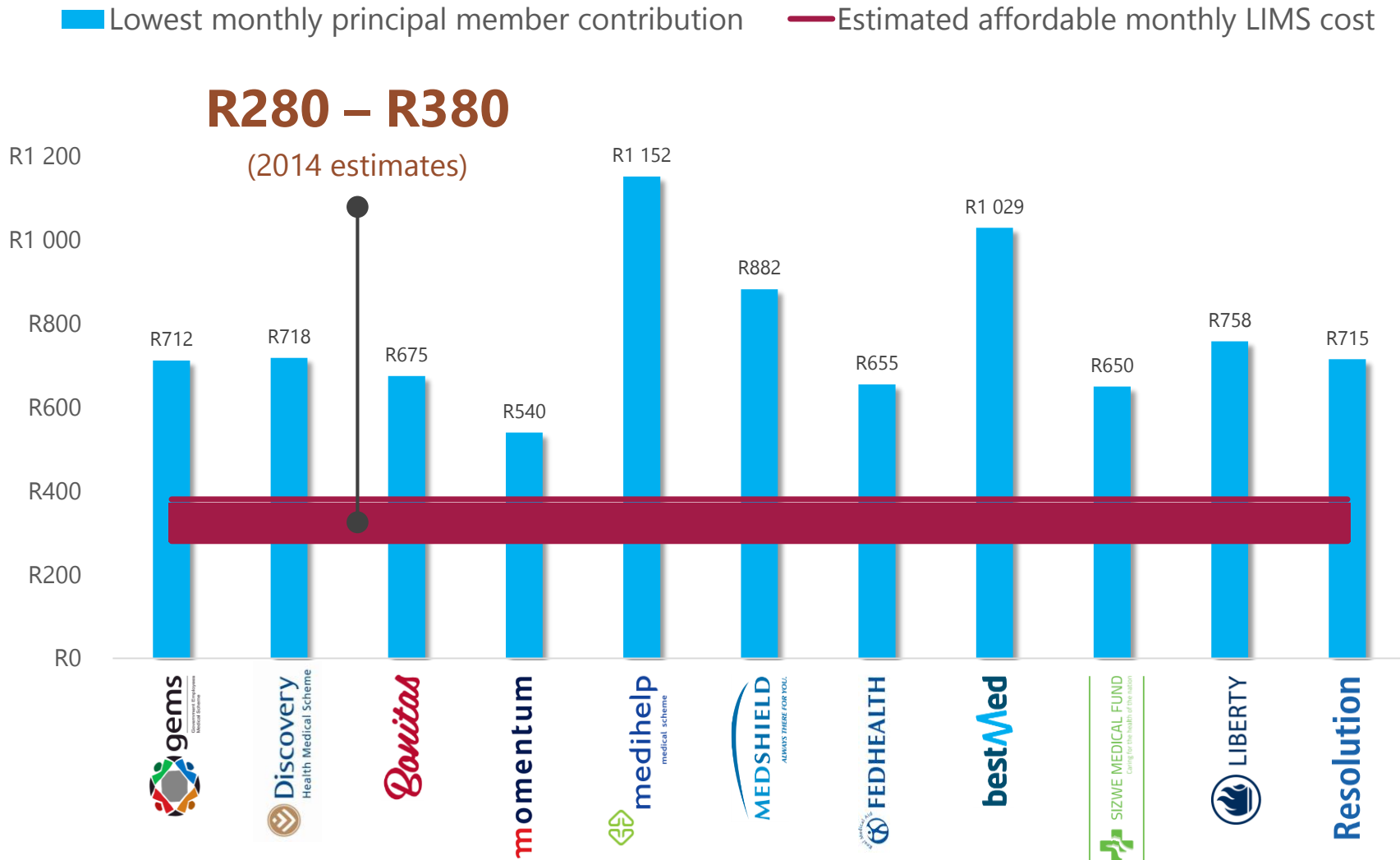
**Estimated number of South Africans willing  
to pay for a low cost package**

# Willingness to pay for primary care

Respondents indicated willingness to pay more for **primary care** than tertiary care



# Medical scheme response within ambit of the law too expensive (and loss-making!)



\* For Discovery, Bonitas, Momentum used second lowest for comparability

# Insurance market clearly demonstrates need for cover below PMB threshold



- Gap cover (OOP & above tariff)
- Quasi medical scheme offerings
- Occupational insurance
- Micro-insurance products
- Dental insurance
- Hospital cash plans

# Two themes to explore

Affordability



**Structural challenges**

# LCBOs in isolation do not address structural challenges of current regulation

- 1 "At cost" issue incentive to bill higher prices and not contract



- 2 Minister of Health's plea to do more with regards to primary care – 2014 BHF Opening Ceremony

- 3 LIMS research

# Possible exemptions to facilitate LCBO

- 1** PMB exemptions (MSA Section 33(2)(a) and 29(o) and Regulation 8)
- 2** Self-supporting provisions (MSA Section 33(2)(b))
- 3** Underwriting after option change (MSA Section 29A(4) and 29A(6)(b))
- 4** Possibly 29(1)(n) depending on how LCBO is demarcated



# Regulatory leadership

- 1 Trade off regulatory complexity of more risk pools versus option movement dynamics (?underwriting between options)**
- 2 Income protection-either by law or by design**
- 3 Should all options be income-rated?**
- 4 Must still give attention to the other required reforms**

# In Conclusion

- 1** Update research on affordability, willingness to pay and benefit requirements
- 2** LCBO could legitimise low income products coming to market & protect policyholders
- 3** Beware of regulating by exemption

# Questions?





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