AGREEMENT ON THE DEMARCATION BETWEEN THE BUSINESS OF A MEDICAL SCHEME AND HEALTH INSURANCE

The Council for Medical Schemes and the Financial Services Board (FSB) are in agreement on the demarcation between the business of a medical scheme and health insurance.

Both the Council and the FSB recognise that a key feature of the business of a medical scheme is the fact that it indemnifies individuals against health care expenses. Such indemnification can be in full or in part.

Health insurance is voluntary cover paid from after-tax income to protect individuals against unforeseen health events. Medical scheme business is voluntary cover partly paid out of before-tax income, which aims to indemnify people against the actual expenses incurred in respect of a relevant health service – as defined in the Medical Schemes Act.

The Medical Schemes Act governs medical scheme business and health insurance business is governed by the Long- and Short Term Insurance Acts.

Health insurance is based on a health event which should only be triggered by the diagnosis of a health condition. The amount of the benefit payable on health insurance must not be retrospectively determined, but must be determinable at the occurrence of the event. The benefits payable by a health policy must therefore be seen not to relate directly to the cost of treatment of the event or the condition.

In any instance where the business involves the undertaking of a liability to grant assistance in defraying expenditure incurred in connection with the rendering of any
relevant health service, then that business constitutes medical scheme business. This includes situations where a fixed sum per day is paid for a hospital stay, or where benefits are determined with reference to medical procedures or services.

The Council and FSB emphasise that at any time where policy benefits take the form of hospitalisation and/or the payment of medical costs, that business will be regarded as medical scheme business.

Health insurers may not offer cessions to service providers. Benefits must be paid to the policyholder and may not be paid by health insurers to service providers in return for services rendered.

Health insurance may not be sold on a conditional basis to members of a medical scheme. No reference to a medical scheme can be made in the marketing or sale of health insurance products.

Both parties have committed themselves to properly monitor the environment to ensure that no products are created that will infringe on the agreed demarcation. In this regard, the Registrar of Medical Schemes and the Registrar of Insurance have agreed to develop a memorandum of understanding that will guide effective implementation of the agreed demarcation. A joint working group will be formed for this purpose.

The Registrars have, furthermore, agreed on a set of guidelines that interested parties can take into account to ensure compliance with the legislation. (See Annexure 1)

Both the Council and the FSB are committed to ensuring that all attempts should be made to ensure that the legitimate rights of policyholders are secured. In this regard, the two registrars will, during the next few weeks, explore a phased approach together with interested parties to ensure that relevant policyholders are dealt with in an appropriate manner.

Council for Medical Schemes/FSB: Joint Statement
Guidelines of demarcation between health insurance and medical scheme business

?? Insurance products should not pay benefits on the basis of lists of services or procedures, i.e. linked to a tariff schedule such as CPT4, BHF or SAMA;

?? Insurance products should not pay benefits on the basis of detailed lists of conditions, i.e. linked to a tariff schedule such as a Diagnostic Related Grouping (DRG), particularly where benefits are tailored to meet actual expenses incurred;

?? Where benefits are linked to a severity index or table that varies according to expected actual medical expenses, this will be regarded as the business of a medical scheme. A limited number of severity levels per condition will be allowable provided the stipulated benefits are not directly related to the payment of medical expenses;

?? Where an insurer pays benefits on the basis of a percentage of a sum assured that varies according to expected medical expenses, this will be regarded as the business of a medical scheme. However, where a health insurance product groups different conditions as a percentage of a sum assured so that a single lump-sum payment – which is clearly not tailored to actual medical expenses - is made on any event, this will not be regarded as the business of a medical scheme;

?? Where benefits offered by health insurance products are clearly linked to a contingency other than the payment of medical expenses – such as income replacement – then the business will not be regarded as the business of a medical scheme;

?? Where an insurance product pays benefits on a periodic basis – such as disability income benefits – it will be regarded as health insurance
business, unless it can be shown that the benefits relate directly to the payment of medical expenses;

?? In addition to complying with the letter of the Insurance Acts, insurance products:
* Should operate on the basis of a minimum sum assured;
* Must not be conditional upon membership of any particular medical scheme;
* Must contain a mandatory standard warning to the effect that this is not a medical scheme and the cover is not equivalent to that of a medical scheme;
* May not contain in its marketing material any reference to a medical scheme other than the standard mandatory warning.

ENDS

Jointly issued by the Council for Medical Schemes and the Financial Services Board.

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