



Reference: Low Cost Benefit Option and Demarcation Products  
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## Circular 80 of 2019: Low Cost Benefit Option & Demarcation Products

### 1. Introduction

The Council for Medical Schemes (CMS) is established in terms of Section 3 of the Medical Schemes Act 131 of 1998 (MS Act).

Section 7 (b) of the Act confers the Council with the duty to, amongst others:  
*“control and co-ordinate the functioning of medical schemes in a manner that is complementary with the national health policy”*

The CMS provides influential strategic advice and support for the development and implementation of strategic health policy, including support to the National Health Insurance (NHI) development process. The NHI is a key priority in the national health policy objective and its bill was introduced to Parliament on 8 August 2019.

### 2. Purpose

The purpose of this Circular serves to inform medical schemes, insurers and other interested parties that no Low-Cost Benefit Options (LCBO) will be allowed for low-income market segments going forward. Furthermore, no products based on the Demarcation Exemption Framework and/or the MS Act will be allowed beyond 2021. This decision is to align such products with the broader health policy discussion that seeks to ensure adequate access to care, irrespective of the economic status of the population.

### 3. Low-Cost Benefit Options

The concept of a Low-Cost Benefit Option intended to increase the affordability of medical schemes and membership through the development of a product targeted to a specific group of the population, mainly low-income households. These households cannot afford medical scheme premiums as coverage and benefit richness is generally correlated to income, therefore the higher the premium, the richer the benefits.

It has, however, been observed that products targeted at lower-income earners present an opportunity for inferior benefits. Mainly, such products potentially use the State as a Designated Service Provider (DSP) without entering into the necessary agreements with the State and lack prescribed minimum benefits (PMB). The South African economy is currently under a lot of strain with higher levels of unemployment further suggesting that a LCBO for low-income earners could be difficult to realise.

The CMS previously outlined two possible LCBO models, both with emphasis on primary healthcare (PHC) services than the current PMB package. The CMS and the PMB Advisory Committee then developed a [PMB package](#) (still to be costed) with a strong focus on primary healthcare. In addition, the CMS considers the proposed PHC package as a basis for the discussions that will lead to the development of an affordable and quality healthcare financing package to citizens of South Africa.

#### 4. Insurance Industry (Demarcation)

The Demarcation regulations, more specifically described under the Long-term Insurance Act, 1998 (Act No. 52 of 1998), Section 72 and Short-term Insurance Act, 1998 (Act No.53 of 1998), Section 70, came into effect on 1 April 2017.

They identified health and accident policy contracts that may conduct the business of a medical scheme and remain insurance contracts outside the regulatory provisions of the MS Act. In 2016, the Ministry of Health published the Demarcation Regulations in the Government Gazette 40515. This prohibited short-term and long-term insurers from providing financial services products which included PHC insurance policies.

Transitional provisions in the Demarcation Regulations allowed time until January 2018 or upon renewal, for amendment of health and accident policy contracts to become compliant with the Insurance Act.

However, the Ministers of Health and Finance realised that some health and accident policies could not be amended without regressing access to healthcare services from private healthcare providers for the part of the population that relies on these policies. They then agreed to a two-year exemption period, from 1 April 2017 until 31 March 2019, while a Low-Cost Benefit Package was being developed. Due to the LCBO guideline not being finalised by 31 March 2019, the CMS consulted with National Treasury, Financial Sector Conduct Authority and the Prudential Authority on the extension of the current exemption period by another two years, to 31 March 2021.

The continuation of the exemption process is seen to have created regulatory arbitrage opportunities which are not in the best interests of members and policyholders of the products under consideration. Continuing to conduct business and offering financial products outside of the MS Act would continue to encourage opportunistic product design that undermines the principles of the medical schemes environment - open enrolment, community rating and prescribed minimum benefits.

#### 5. Section 8(h) Exemptions

There will be no exemptions granted for LCBO products within the medical scheme and healthcare insurance environments. All products which do not comply with the MS Act must be wound down before March 2021 and will be deemed to be illegal after March 2021. Entities that currently have exemption through Section 8(h) of the MS Act are requested to approach the CMS to identify the best way forward to wind down these tranches of business.

## 6. Conclusion

The CMS has been undergoing an extensive review process of the benefit composition and costing of the PMB package which medical schemes must offer all its members, with the emphasis on PHC. The CMS considers the proposed PHC package as a more direct and efficient manner in which to bring affordable and quality healthcare financing packages to citizens of South Africa, as opposed to the current LCBO considerations and demarcation products on the market.

An additional report detailing the performance of exempted products will be issued during December 2019.

The CMS calls on all stakeholders to support the healthcare industry as it moves towards providing affordable, accessible, equitable and quality healthcare for all. Please share your comments and inputs to the following email address: [lcbo@medicalschemes.com](mailto:lcbo@medicalschemes.com).

Yours sincerely,



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