

# IMPLEMENTATION OF DEMARCATION

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**Cape Town**  
16 -19 July 2017

The  
**18<sup>th</sup>** Annual  
**BHF Southern  
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# Agenda

- Objectives of Demarcation
- Regulations and its scope
- Status of Demarcation exemption process



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# Demarcation Objectives

- The Demarcation Regulations balance policy objectives across the medical schemes and the insurance sector and seek to prevent regulatory arbitrage.
  - The Regulations specify which types of contracts are regulated under the LTIA and STIA as health policies and accident and health policies, respectively, and accordingly are excluded from the MSA, despite such contracts meeting the definition of the business of a medical scheme.
  - The Regulations seek to clearly demarcate the responsibility for supervision of medical schemes and health insurance products, and ensure that health insurance products do not undermine the social solidarity principles inherent in medical schemes.
- Address market conduct abuses to better protect customers.



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# Demarcation Regulations

- The Regulations will take effect on 1 April 2017.
- All new health policies (LTIA) and accident and health (STIA) policies written after the Regulations come into operation must comply with the requirements set out in the Regulations.
- Existing health policies (LTIA) will be expected to align to the Regulations as and when such contracts are varied or renewed after the Regulations come into operation.
- Existing accident and health policies (STIA) will be expected to align to the Regulations by 1 January 2018.



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# Health insurance policies affected by demarcation regs

- Three categories of health insurance products are of particular relevance to the demarcation regs , namely:
  - **Medical Expense Shortfall policies (Gap cover plans)**
  - **Non-medical expense cover as a result of hospitalisation policies (Hospital cash plans)**
  - **Primary healthcare insurance policies**
- Other types of health insurance products included: lump sum/income replacement policy; cover for frail care; HIV/AIDS; emergency evacuation or transport, motor car third party liability cover and property third party liability cover; international travel insurance



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# Scope of Demarcation Regulations:

- All the policies that fall under the demarcation regulations have to comply with the requirements of regulations in order to be compliant
- These requirements include the following:
  - Benefits that are allowed in terms of regulations e.g:
    - Medical expense shortfall cover (Gap Cover) has a benefit limit of R150,000 per insured person per annum,
    - Non-medical expense cover as a result of hospitalisation (Hospital Cash Plans) benefit must be a fixed sum of money per insured per day not exceeding R3,000 or a lump sum amount of R20,000



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# Scope of Demarcation Regulations:

- Further requirements :
  - prohibition on health insurance policies from discriminating against any person on the grounds of age, gender and other criteria (policies must be underwritten on group basis) ;
  - enhanced product disclosure/marketing requirements;
  - alignment of broker commission between health insurance and medical scheme products;
  - enhanced regulatory reporting and monitoring;
  - product standards which limit policy benefits; and
  - limitations on waiting periods, termination/varying contract



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## Demarcation Regulations and Primary Healthcare insurance policies:

- These types of benefits will, going forward, have to be provided in accordance with the MSA.
- The Minister of Health has requested that the CMS grant a two year exemption, subject to certain conditions, for primary healthcare insurance policies with effect from 1 April 2017.
- It is envisaged in the release of the regulations that further research will be led by the Department of Health into the development of a Low Cost Benefit Option (LCBO) guideline
- The CMS has included the research into the framework in the PMB review process that has already been initiated



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## Exemption for Primary healthcare insurance products:

- The Demarcation Framework was approved by Council on the 15th of March 2017 and was distributed to the industry by means of a circular. (Circular 19 of 2017).
- The framework explains the process and the required documentation that should be submitted for Phase 1 and Phase 2 exemption applications.



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## Exemption for Primary healthcare insurance products:

- **PHASE 1:** CMS received 38 exemption applications, which consisted of 171 insurance products:
  - 117 products appears to be Primary Healthcare products
  - 87 products appears to be hospital indemnity products.
- The exemption applications served before Council on the 31<sup>st</sup> of May 2017 of which 35 applicants were granted, subject to the submission of Phase 2 exemption documentation within 30 days of receipt of notification from CMS:
  - 3 were not approved on the basis of not doing the business of a medical scheme



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## Exemption for Primary healthcare insurance products:

- **PHASE 2**: All applicants received formal correspondence regarding the outcome of the exemption application.
- The due date for submission of exemption applications was 30 June 2017 and applications are currently being reviewed
- CMS and FSB collaboration: The MOU is in the process of being finalized and we have regular meetings in order to finalise the MOU
- The MOU deals with the process envisaged within the regulations as they relate to the process of sharing information and process regarding the submission of new products for review



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# THANK YOU



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