



## **Terms of Reference**

**The market for hospital cash plan insurance in South Africa**

**October 2011**

## 1. Introduction

As part of its broader engagement in the area of insurance in South Africa, FinMark Trust would like to commission research to explore **the scope and nature of the market for hospital cash plan insurance in South Africa.**

Created with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by seven trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

## 2. Background

Health financing and services are critical in the alleviation of poverty and vulnerability. The combination of loss of income and the costs incurred by lower income households during periods of illness can have a devastating effect on their welfare. This often forces households to dispose of hard-earned assets, eat into savings (when this is available) or even take children out of school to augment the family's earnings. Such events do not only have a major effect on the present generation but also undermine the intergenerational transfer of wealth and gradual emergence out of poverty. In contrast, appropriate healthcare can increase a person's working life even for severe illnesses such as HIV and AIDS. This does not only improve the quality of life for patients, but allows them to provide for their families.

Market trends show that so-called "hospital cash plans" are increasingly being offered as a means to manage the cost and loss of income associated with particular health events such as hospitalisation. While not intended to provide complete cover for all medical expenses, these policies assist households in dealing with some of the direct or indirect expenses associated with hospitalisation. This is particularly relevant in a country where only 8.3m<sup>1</sup> people have health insurance coverage through medical schemes, with the other approximately 42m being dependent on out-of-pocket funding of healthcare, or on accessing the public health system.

Hospital cash plans have been the subject of much controversy over the last few years as they are sometimes seen as means to circumvent the regulation of medical schemes and test the demarcation between insurance and medical scheme business. As a consequence of the debate between industry and government, members of the Association for Savings and Investments South Africa (ASISA) adopted a code of conduct delineating health-related insurance products into categories of severity (as it relates to the health event) that they may cover. Members of the South African Insurance Association (SAIA) opted to not follow the same route and individual members are left to test their products with the relevant supervisors or through court judgments.

As result, at least three categories of policies can be identified depending on the nature of benefit calibration (relative to the cost of the health event):

- The first pays out fixed, lump sum benefits based on pre-defined health events categorised into a limited number of tiers of severity and typically comply with the agreed ASISA code;
- The second pays out fixed amounts but these amounts are calibrated to a wider range of health events and tailored to approximate the actual cost of the medical event; and
- The third pays out variable amounts of "top-up cover" filling the gap between the cost of a particular medical event and the cover provided by the policyholder's medical scheme.

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<sup>1</sup> Council for Medical Schemes, 2011. *Annual Report 2010-2011*. Council for Medical Schemes: Pretoria.

Product combinations of the above categories may also be possible.

As a consequence of the continued unmet demand for health insurance as well as favourable court rulings on some of the products testing the demarcation between health insurance and medical schemes (e.g. *Guardrisk vs the Council for Medical Schemes 2008*), an increasing variety of these products are offered in the market. At the same time, new regulations proposed by Treasury and the CMS are moving to tighten the regulatory space for health insurance products and will most likely lead to the closing down of several of the products.

## **2. Project objectives**

The objectives of this project are as follows:

- To provide an overview of the size, nature and dynamics of the market for hospital cash plans in South Africa;
- To consider the role that such policies play in defraying the cost and loss-of-income consequences of health events for lower income consumers;
- To consider how these policies fit within the current regulatory environment, including the impact of recent regulatory changes proposed by Treasury and Council for Medical Schemes (CMS); and
- To assess whether there is a legitimate space for hospital cash plan products in serving the needs of lower income consumers.

These objectives serve the broader goals of market development and financial inclusion in creating an optimal health financing and broader insurance environment in South Africa.

## **3. Project Scope**

In order to meet the above objectives, the consultant will be required to produce a research report covering the following analytical areas:

- Market structure and dynamics: How many products are currently available? Who are the main providers of the products – long- or short-term insurer? Are there particular features of the providers that distinguish them from other long or short-term insurers? Are more players entering the market? What are the main drivers for entry and development? What are the likely trends moving forward?
- Description of available products: Cover levels, basis on which cover is provided (e.g. certain number of days in hospitals, severity of medical condition that necessitates hospitalisation, etc.), premiums, exclusions and terms and conditions.
- Market size: This includes estimates on how many policies are currently in force, as well as estimates of the types of policies in the market (e.g. in-patient cover only, in- and out-patient cover, etc.). Consultants will also be required to provide an estimate on the number of policies and lives covered.
- Marketing and intermediation: How are the products sold? Are the products marketed as replacements for medical aid or supplementary to medical schemes. Marketing practices will also have to be reconciled with how the products are used by clients?
- Performance: As far as data is available provide an indication of the financial and value performance of these products (e.g. churn/persistency, claims ratios, claims rejections, etc).
- Categorisation/typology of products: Consideration should be given to whether there is an emerging categorisation of products that could assist in describing and understanding the

market for these products (e.g. using features such as pay-out triggers, in-/out-patient cover, levels of cover or any other relevant features that clearly delineates available products into different groups).

- As far as possible, based on secondary data, describe the profile of policyholders (as well as beneficiaries) of these products in terms of age, risk profile, income and current use of medical schemes. As far as the available data allows, the consultant should consider the overlap in cover between medical schemes and hospital cash plans and the degree to which these could be perceived by clients as alternatives.
- Consider the future space for such products in light of the introduction of the National Health Insurance Scheme and the any current or planned changes to the demarcation agreement(s) between the Council for Medical Schemes and insurance environments.

To answer the above questions, it is foreseen that the consultant use the research methods described below:

- **Desktop research**, where possible, to locate available information on the market, as well as the various companies that are providing these products and the nature of the products.
- **Consultations** with long- and short-term insurance companies currently providing these products, with the long- and short-term insurance industry bodies (ASISA and SAIA), the Council for Medical Schemes and any other persons that have an understanding of the market and its dynamics.
- Where appropriate, **analysis of FinScope data** to provide a description of the users of these products.
- It is **not foreseen** that primary research (focus groups or bespoke surveys) needs to form part of the current project but can be considered as a next phase of research.

#### 4. Deliverables

4.1 A draft report containing a market overview as basis for the overall analysis. This should be submitted to Cenfri and other identified stakeholders for comment by mid-February, 2012.

4.2 Presentation of the interim findings at a workshop of interested stakeholder by end-February 2012. FinMark Trust will carry the direct cost for this workshop and will make the necessary arrangements. The consultant will be required to provide support to the workshop arrangements to ensure a good level of attendance by interviewed and other interested parties.

4.3 A final publishable report to be submitted to FinMark no later than **16 March 2012**.

#### 5. Timing

5.1. Proposals: Proposals for the project should be submitted by 12 noon on **Wednesday, 9 November 2011**. Electronic proposals are required. It would be preferred if the proposal is accompanied by a hard copy.

5.2. Work: It is envisaged that the project will be let by **Friday, 18 November 2011** and be finalised by the end of **March 2012**.

#### 6. Contents of proposal

Proposals to undertake this project must include:

- 6.1. Statement of qualifications of firm(s) (if no previous work record for FinMark Trust).
- 6.2. Name & CV of staff members responsible (i) for overseeing the work; (ii) for undertaking the work.

- 6.3. Proposed approach to the work.
- 6.4. Fee proposal & costs estimate, indicating the basis of calculation of fees. This should include a clear indication of level of effort (e.g. number of days), as well an indication of seniority of resources. It would be good if the consultant could provide an indication of the cost of various components of the research.

An understanding of a Making Financial Markets Work for the Poor approach will be required. See Porteous D, 2004, Making Financial Markets Work for the Poor, [www.finmarktrust.org.za](http://www.finmarktrust.org.za)

## 7. **Basis of award**

FinMark Trust will award the contract based on:

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|---|-------|
| 7.1. Relevant, demonstrated competence of firm(s) in this area                    | (15%) |
| 7.2. Demonstrated expertise of key individuals to be involved in this project     | (25%) |
| 7.3. Use of local professional capacity (consulting, analysis, coordination etc.) | (10%) |
| 7.4. Content, quality and originality of proposal                                 | (25%) |
| 7.5. Affirmative action scorecard   | (10%) |
| 7.6. Fee basis  | (15%) |

### Guidance notes to bidders

*FinMark Trust reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.*

*“Relevant, demonstrated competence of firm(s) in this area” - you should aim to demonstrate how the firm’s collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference. You are welcome to describe the firm’s general experience of financial sector development issues (e.g. in other geographies or topical areas) but the evaluation will focus particularly on the application of that experience for the specific task at hand.*

*“Demonstrated expertise of key individuals to be involved in this project” – the evaluation places considerable emphasis on the role and demonstrated expertise (i.e. track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.*

*“Use of local professional capacity (consulting, analysis, coordination etc.)” – FinMark Trust wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.*

*“Content, quality and originality of proposal” – proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.*

*“Affirmative action scorecard”- ownership, management, staff development.*

*“Fee basis” – value for money, as well as absolute cost, will be taken into account.*

## 8. **Contact:**

Questions or comments in respect of these terms of reference should be directed to:

Contact person	: Anja Smith or Mia de Vos
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