

## 2018 DEMARCATION FACT SHEET

### Compliance & Regulations



#### DEMARCATION REGULATIONS OVERVIEW

In 2004, the Council of Medical Schemes, together with other stakeholders, released a demarcation document to provide clarity on the definition of the “business of a medical scheme” as defined in the Medical Scheme Act.

The Demarcation Regulations aimed to put to rest the ongoing debate that health insurance products, such as Gap Cover policies, Hospital policies and HIV policies, created a conflict of interest that undermined and caused harm to the medical schemes environment.

After many years of debate, public comment and a court case, an updated document was released that outlined the proposed demarcation agreement. The document was circulated for public comment, after which a revised version of the proposed Demarcation Regulations was published for comment followed by the final regulations being published in October 2016 which clearly demarcated the business of a medical scheme, and that of a health insurance provider. December 2016 finally saw the Demarcation Regulations being published, thereby ensuring that health insurance products are subject to the same underlying principles as medical schemes as provided for in the Medical Schemes Act.

#### IMPACT

Short-Term Insurers offering Gap Cover policies have been impacted since the new Regulations came into effect on the **1st of April 2017**.

Operationally, Stratum Benefits has to align its business processes and products to be compliant with the new Regulations, of which certain parts have been summarised below for ease of reading and understanding.

#### OVERALL POLICY LIMIT (OPL)

Benefits on Gap Cover policies must be capped at an **Overall Policy Limit (OPL)** for new policies that commenced from **1 April 2017**, and existing policies to follow suit effective **1 January 2018**.

#### OPEN ENROLMENT

This is a principle followed by medical schemes whereby any eligible person who wishes to join a medical scheme, is entitled to do so without facing any form of unfair discrimination.

Insurers may **not** discriminate against a new policyholder based on race, age, gender, marital status, ethnic or social origin, sexual orientation, pregnancy, disability, state of health or any similar grounds.

Gap Cover Insurers cannot sufficiently protect their existing client base from less favourable risk coming on board if they are not permitted to apply age restrictions to their policies.

The Regulations however make provision for an Insurer to apply a higher premium to a policyholder that entered, or enters into a contract after a specific age as determined by the Insurer. This principle is in line with the Medical Scheme Act whereby late joiner penalties are applied to members who take up cover later in life.

#### CLIENTS TRANSFERRING COVER

Clients who wish to transfer cover from one Insurer to another must be accepted by the Insurer, placing the client in the same position as they were in prior to the transfer. Therefore, where a client has served waiting periods under their current policy, and wishes to transfer cover to another Insurer, the Insurer must accept that client without the protection of full waiting periods.

Allowances are made by the Regulations for Insurers to impose a General Waiting Period of up to 3 months on a policyholder who transfers cover as well as any unexpired part of a waiting period served on the current policy. An Insurer may underwrite enhanced benefits, but may not discriminate by imposing full waiting periods if the client transfers to a policy with materially similar benefits.

#### WAITING PERIODS

As per the Medical Schemes Act, medical schemes may only impose two types of waiting periods, namely a **3 Month General Waiting Period**, where no claims can be submitted unless a client is claiming for an accidental event, and a **12 Month Pre-Existing Condition Waiting Period**, whereby an Insurer may only exclude a pre-existing medical condition if the client has sought medical advice or received treatment for that condition 12 months prior to joining.

Prior to the Regulations coming into effect, Insurers were permitted to impose Condition Specific Waiting Periods on medical conditions, thus excluding it from cover for a pre-determined period of time. Post-Demarcation, Insurers may not do so and therefore clients can claim sooner, putting the Insurer at greater risk to cover medical expense shortfalls without receiving sufficient premium to cover the risk.

These are some of the challenges faced by Gap Cover Insurers, but rest assured that Stratum Benefits will continue to keep abreast with changes and look at ways in which to compliantly manage our risk, remain competitive by providing real benefits and real cover whilst maintaining the level of service excellence that makes us uniquely different.

#### The Stratum Benefits Team