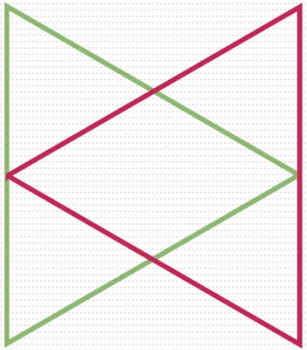

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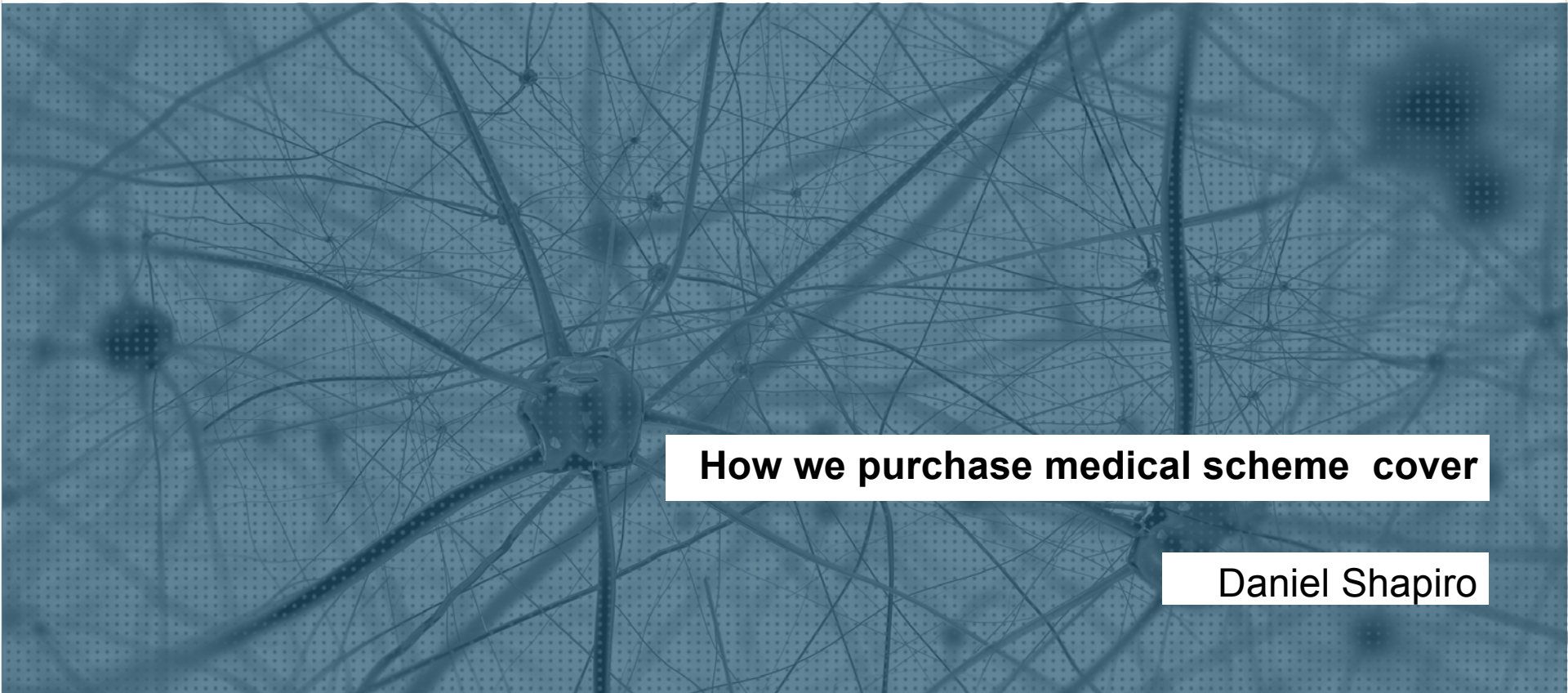


How we purchase medical scheme cover

Daniel Shapiro

What determines whether households purchase medical scheme cover?

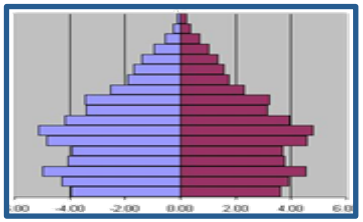
What determines the level of expenditure on contributions of medical scheme members?

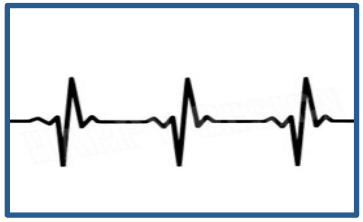
What do these reveal about behavioral biases of medical scheme members?

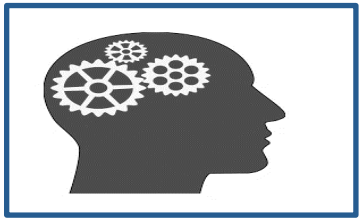
Context of household decisions

- Cross-subsidisation
- Ability to anti-select
- Increasing costs
- Large choice of offerings
- Difficulty in differentiating between options
- Risk selection among schemes
- Marketing of products
- Tough economic environment
- Prospect of policy changes

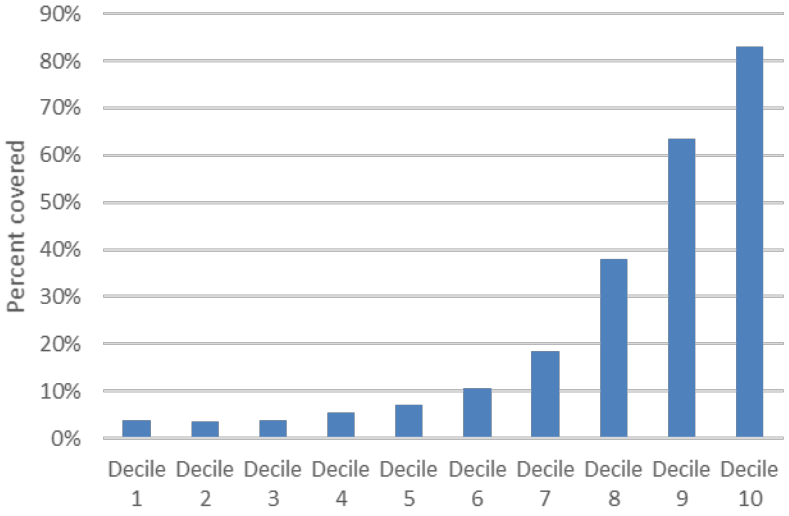
Purchasing coverage can be complex

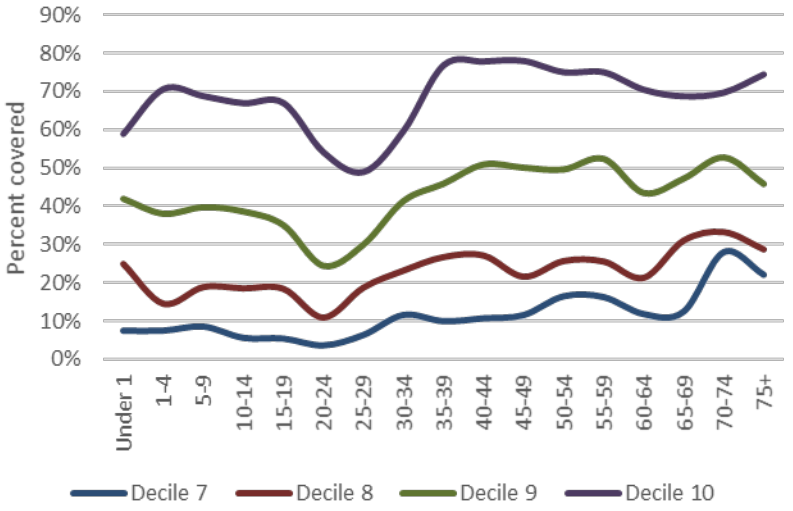






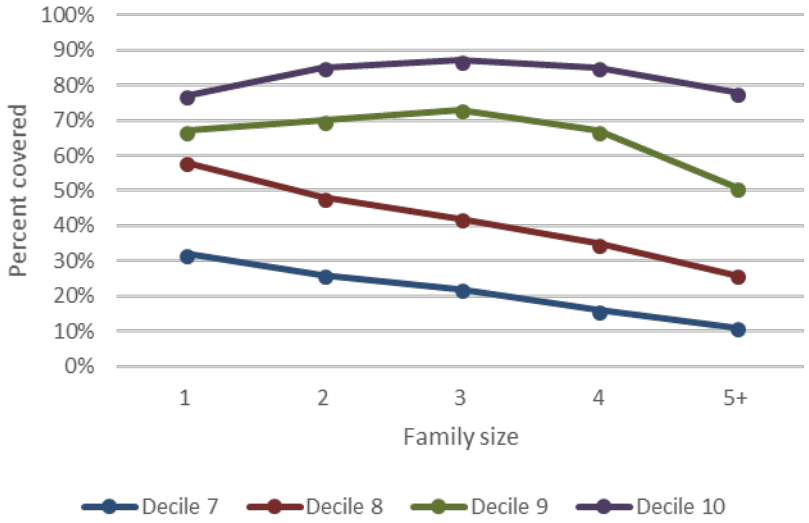
Coverage by income and age

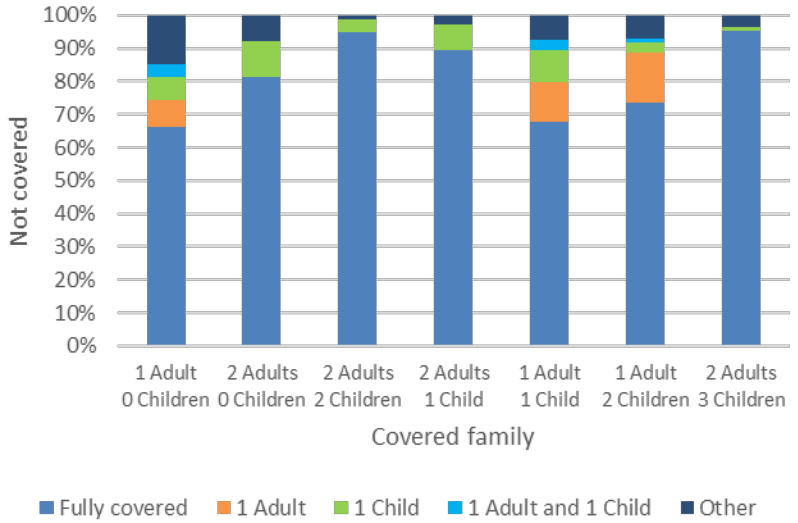




Actual coverage from the 2014/2015 Living Conditions Survey

Coverage by family size and partially covered families

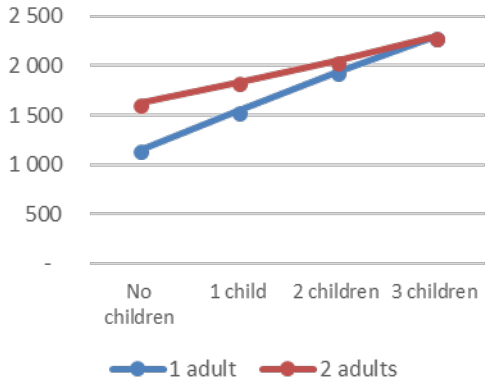




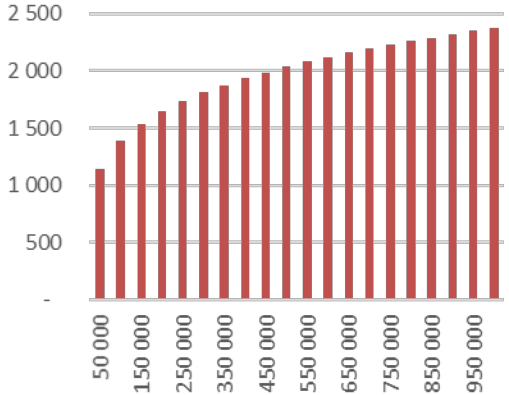
Actual coverage from the 2014/2015 Living Conditions Survey

Expenditure on contributions

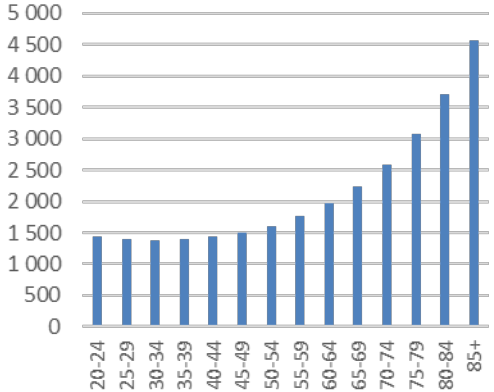
Household composition



Income

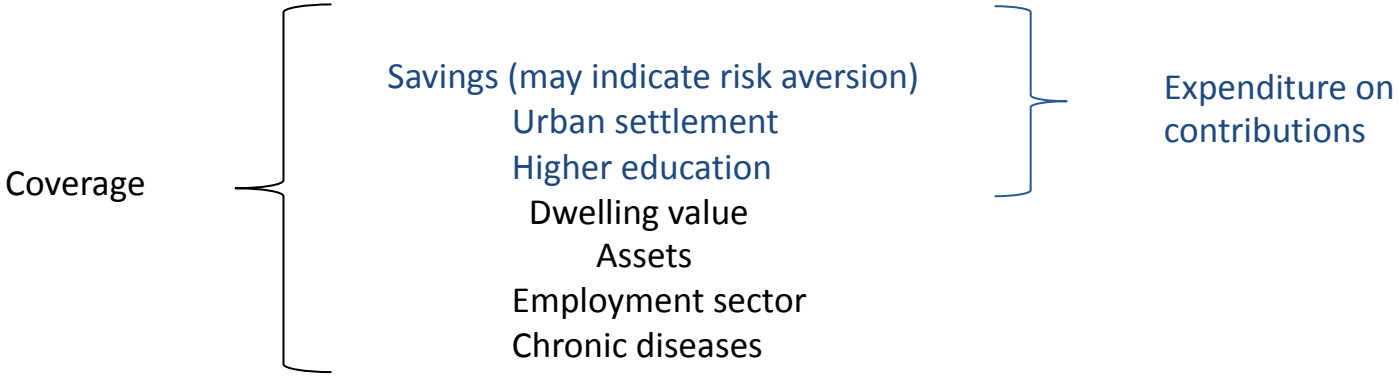


Age of household head



Expected expenditure modelled from the 2014/2015 Living Conditions Survey
Standardised for co-varying factors to allow for consistent comparisons

Other significant household characteristics



Despite coverage being associated with household characteristics, most of the variability in expenditure at a household level remains unexplained

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Some behavioural insights

Anchoring	Medical scheme members may give undue weight to references which come to mind when making decisions, such as their personal healthcare events or anecdotes. This may explain part of the large inconsistency in expenditure on contributions.
Prospect theory	Members may dislike the prospect of a possible loss. This may explain why risk averse members have greater spend on contributions.
Mental accounting	Households are willing to spend more on contributions from higher incomes but not from higher wealth. Income may be seen as being available for expenditure on protection through medical schemes and not wealth.
Over-confidence	Young members choose not to purchase coverage and spend lower amounts on contributions. Although this may be rational, there is the possibility of catastrophic losses that may be ignored.

Thoughts to consider

How can bad choices be identified and how can members be encouraged or compelled to make rational decisions? By framing, nudging, incentives, defaults, designing options to meet needs? Through medical schemes, employers, financial advisors, brokers?

Who has an interest to understand how households make decisions? Policymakers, employers, financial advisors, medical schemes?

What are the knock-on effects of more rational decisions by members for all medical scheme members? Will social solidarity be diminished or enhanced?

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