

foresight  
dialogues 2018



## **Anti-selective Behaviour**

Stephen Windell

# **Anti-selection**

## ***“Seller Beware”***

*Information Asymmetry* leaves the buyer knowing what to expect and the scheme out of pocket

## Pros

Furthers social agenda of Medical Schemes Act

Protection for lives that need it when they need it

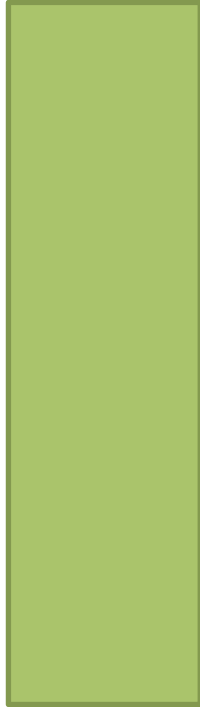
## Contras

Erodes value for medical scheme members

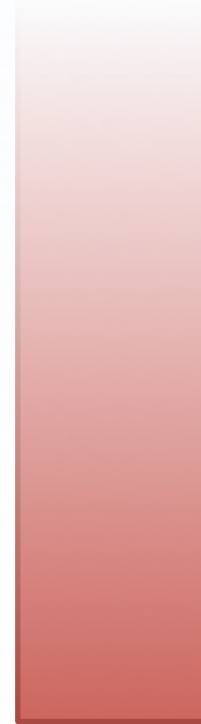
Promotes the behaviour

# Risk Aversion

Certain contributions



Uncertain claims





## Anti-selection

Current legal framework

## Waiting periods according to Medical Schemes Act of 1998

Section 29A:

(1) A medical scheme **may** impose upon a person in respect of whom an application is made for membership or admission as a dependant, and who was not a beneficiary of a medical scheme for a period of at least 90 days preceding the date of application-

(a)

a general waiting  
period of up to three  
months

and

(b)

a condition-specific  
waiting period of up to  
12 months.



# Waiting periods according to Medical Schemes Act of 1998

Section 29A:

A scheme may not impose waiting periods on:

- Child-dependants born during the period of membership
- Members or dependants changing scheme due to change of employment; or employer termination of medical scheme coverage
- Option changes

Beneficiaries on waiting period still have access to PMBs if they were not part of a medical scheme within 90 days prior to application



## Late joiner premium penalty according to Regulation 13

Penalty is a portion of the contribution of a member or adult dependant who joins after age 35

It is a form of legal age discrimination

Compensate the scheme for cross-subsidization of the risk of the individual

Further burden to those that can't afford cover

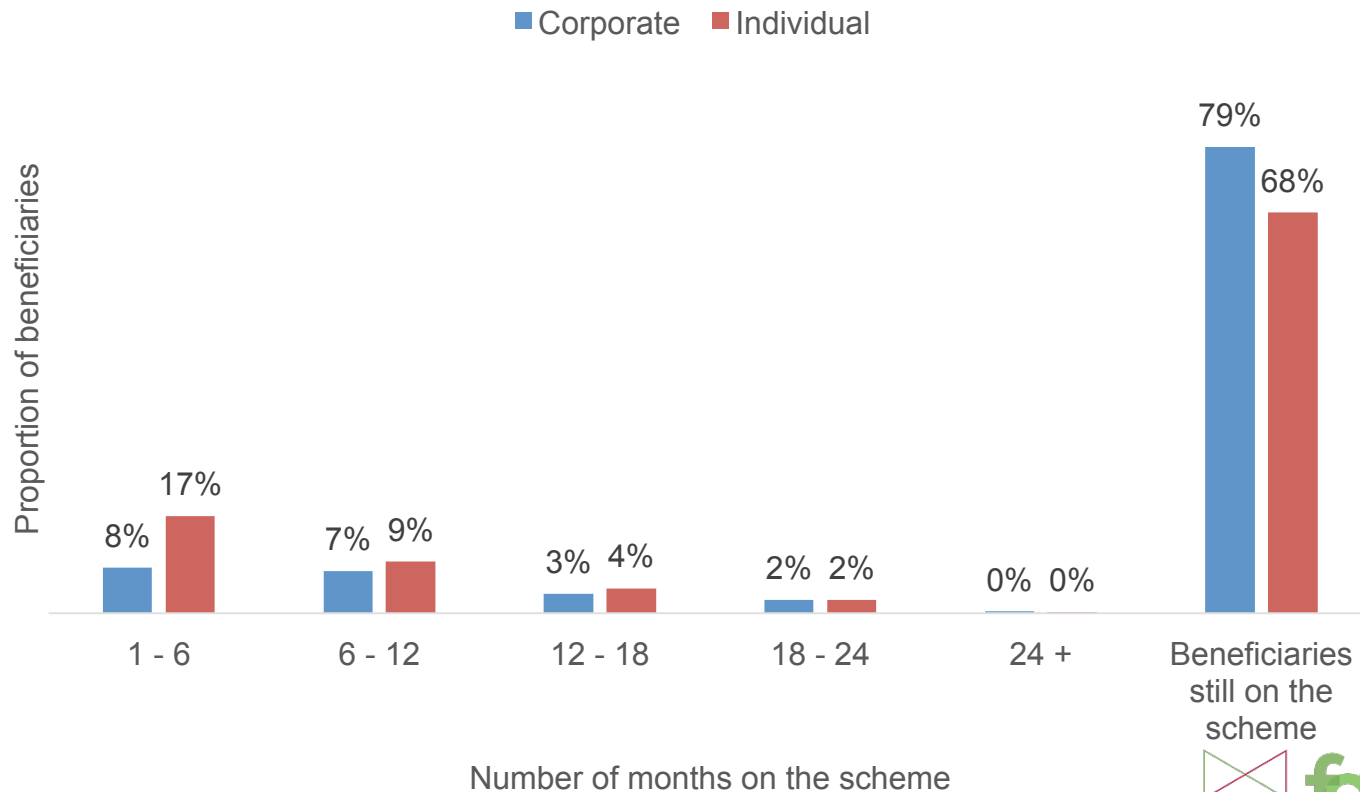
Break in coverage	Loading
1-4 years	5%
5-14 years	25%
15-24 years	50%
25+ years	75%



## Anti-selection

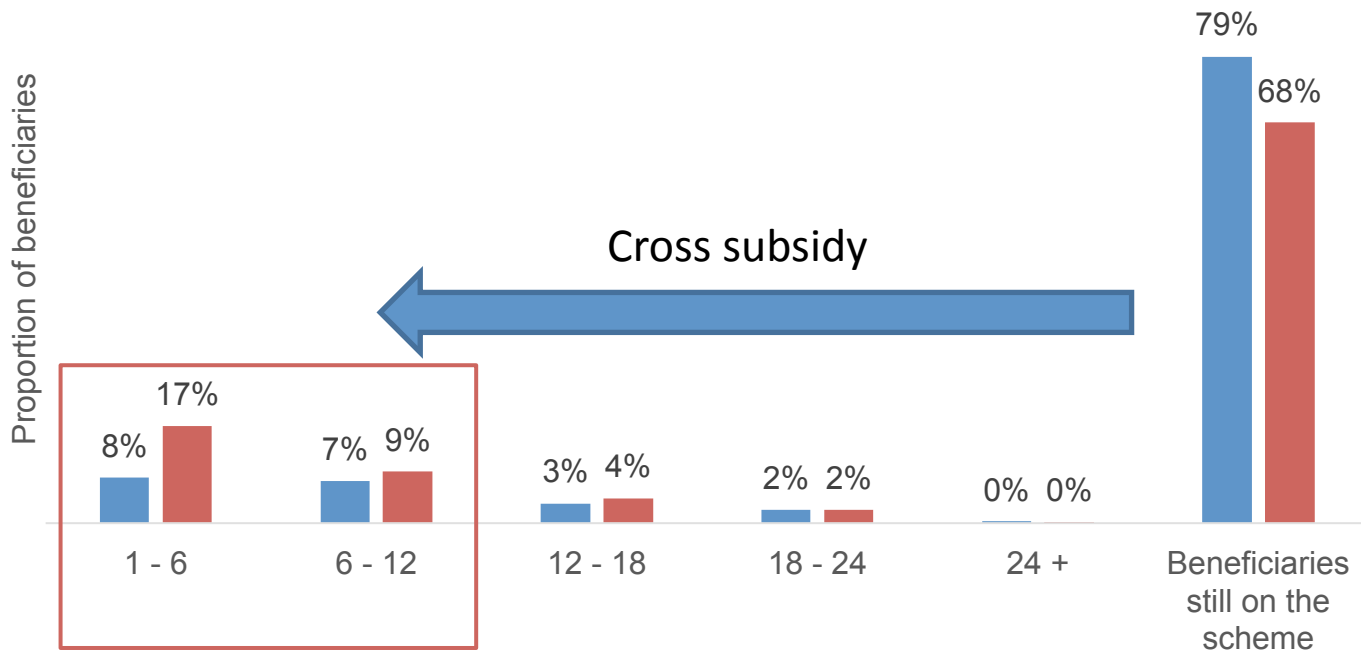
Is it happening?

# Scheme hopping members



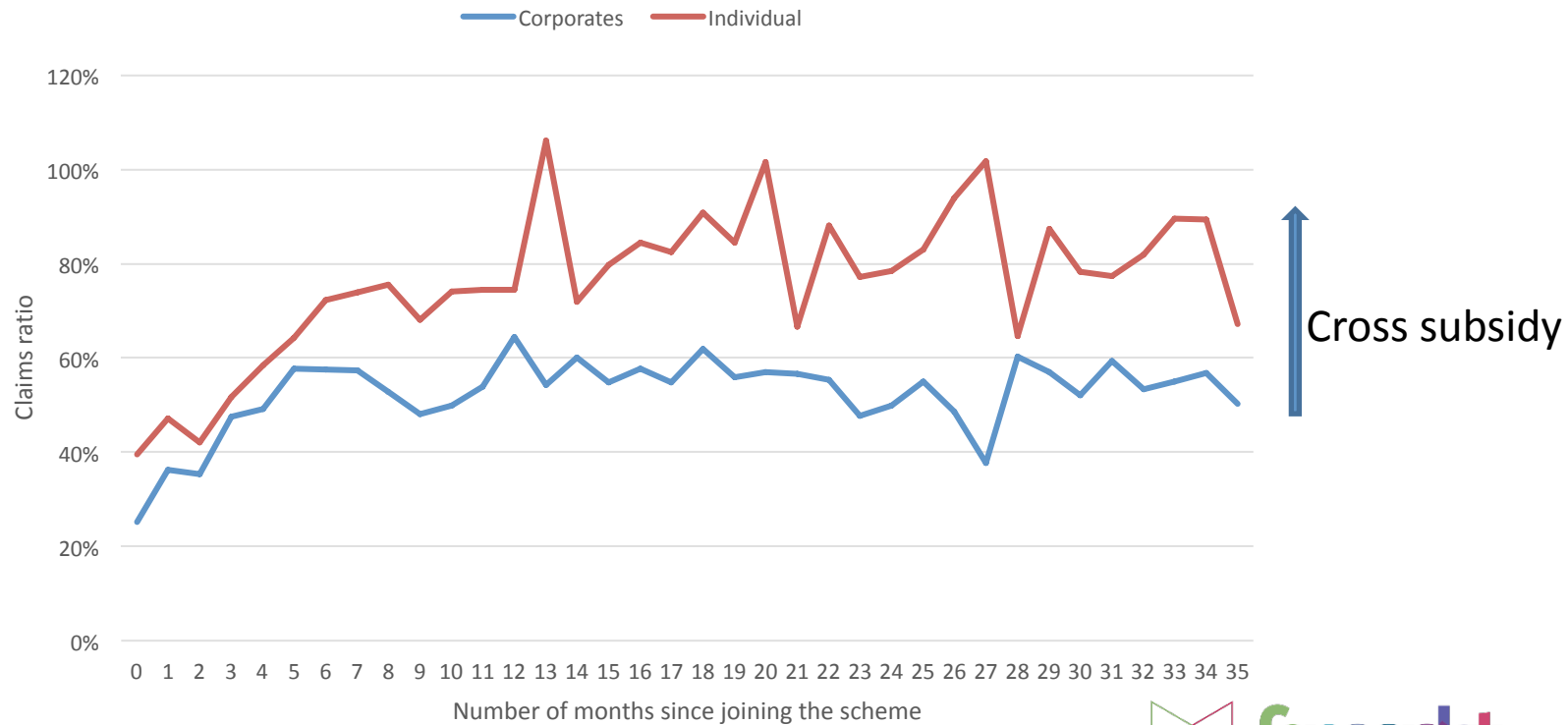
# Scheme hopping members

■ Corporate ■ Individual

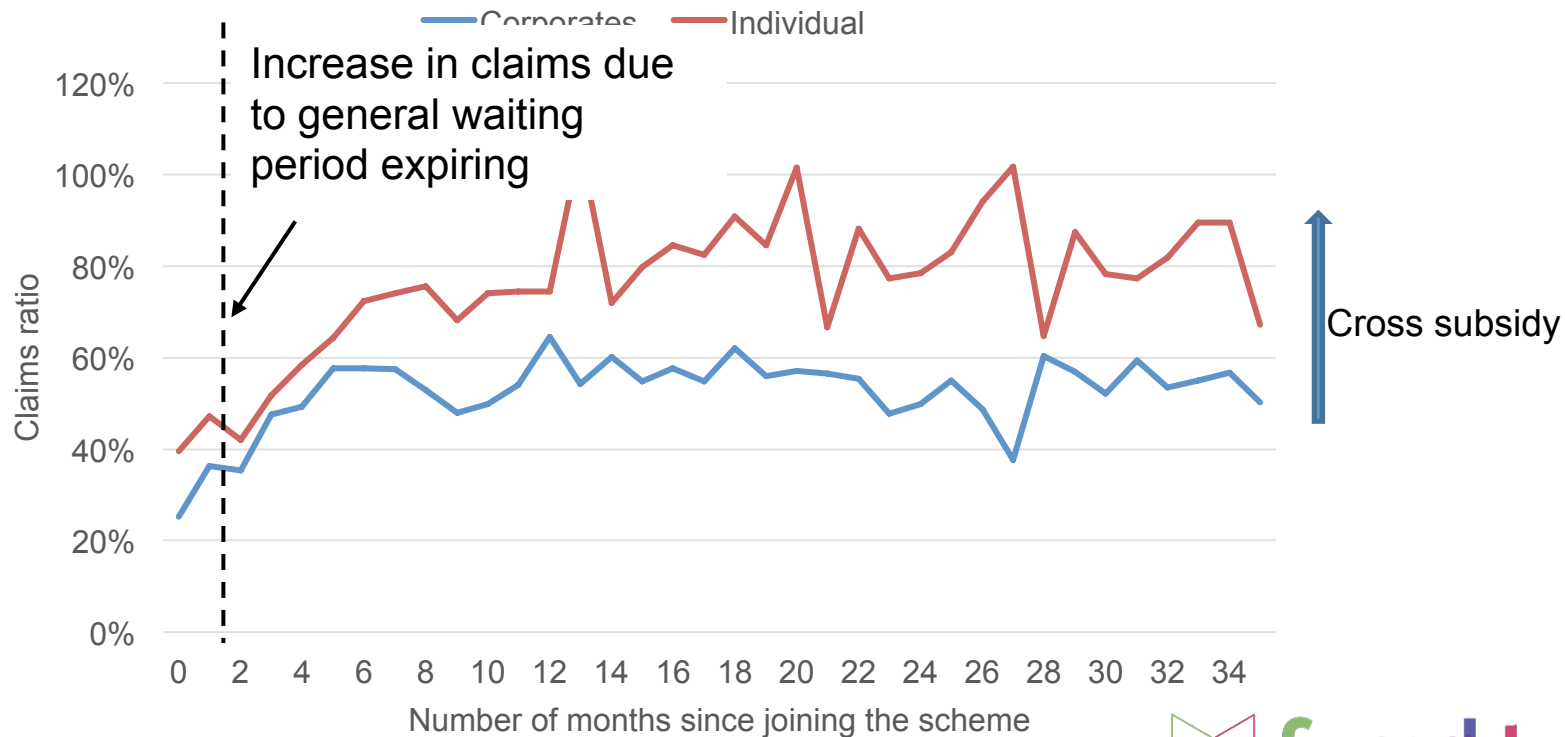


High portion of members that join the scheme and leave shortly after

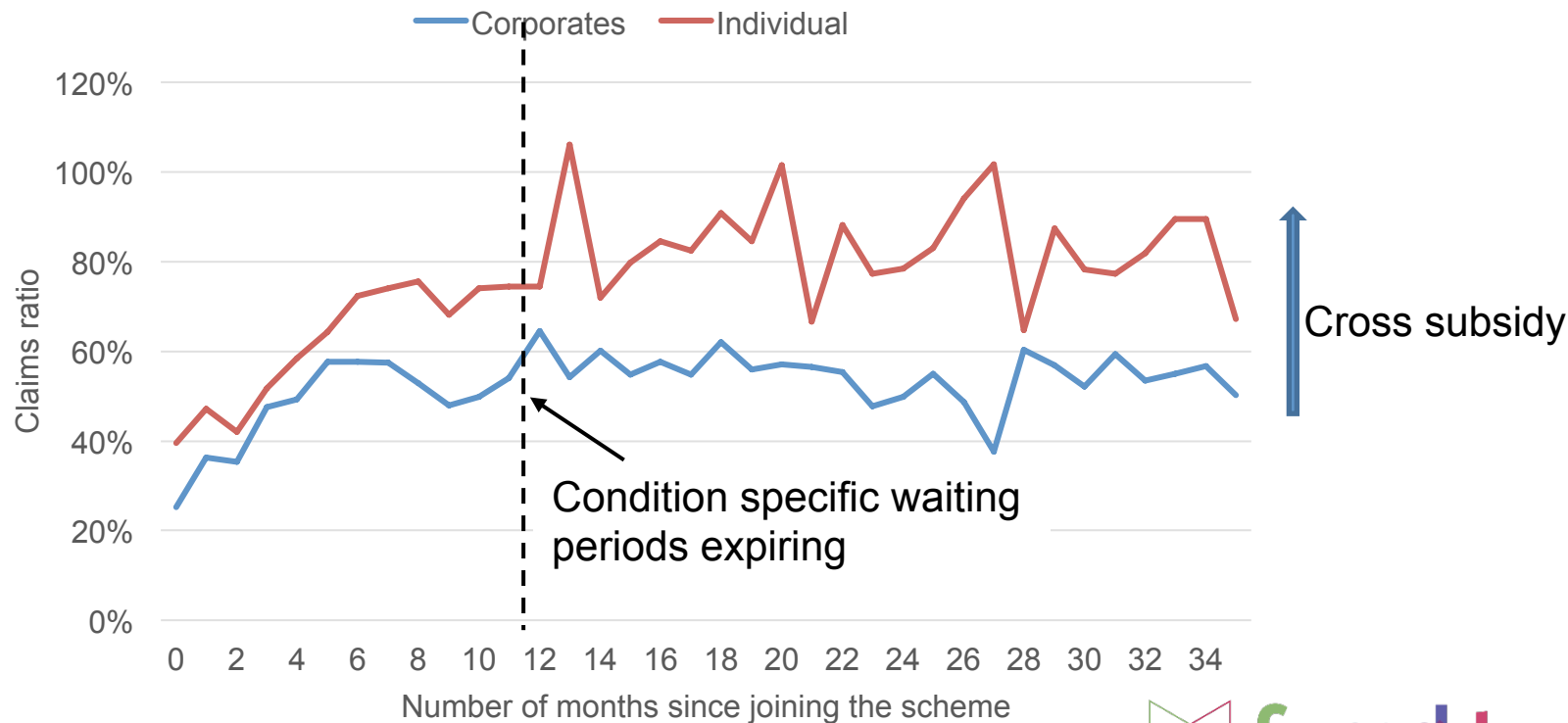
# Claiming patterns



# Claiming patterns

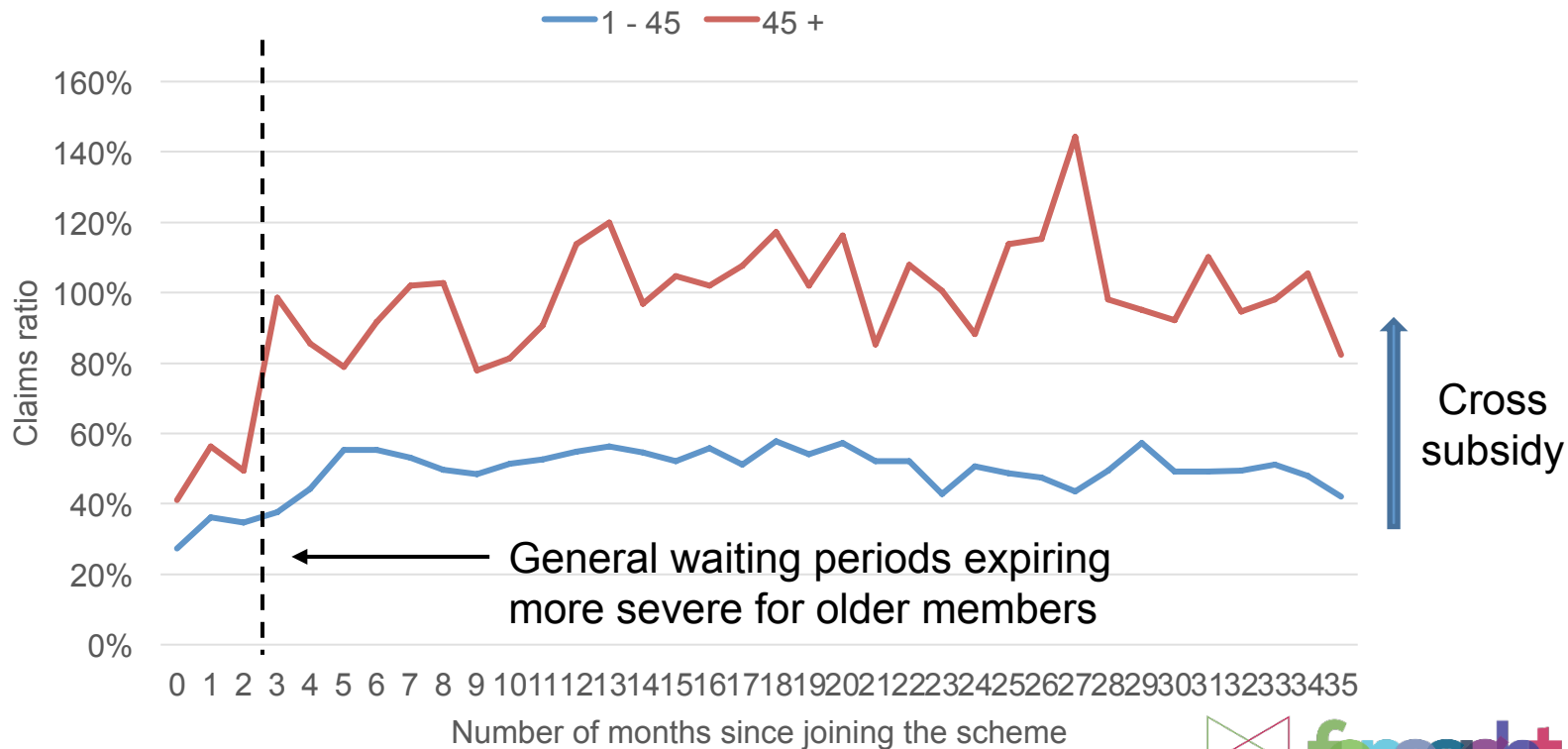


# Claiming patterns





# Claiming patterns





## Anti-selection

Option selection dynamics

## Types of option selection

### Buy downs

- + Matches Affordability
- Loss of contributions
- Loss of benefits
- + PMBs still provide cover

### Buy ups

- + Access to greater benefits
- + Greater contribution income
- Option hopping

# Prospect Theory

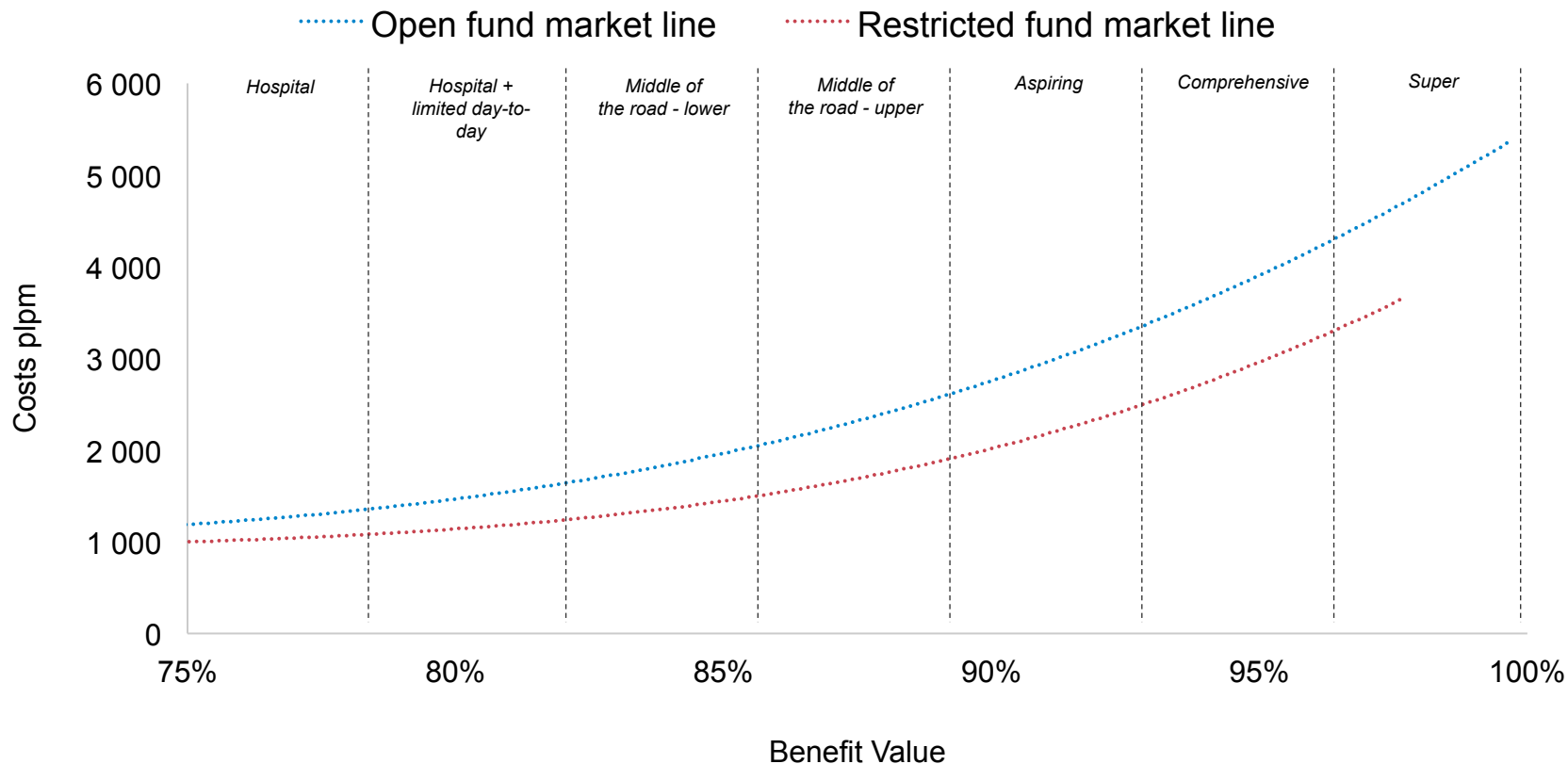
## *“Certain benefit vs Uncertain loss”*

Theorised and developed by Amos Tversky and Daniel Kahneman

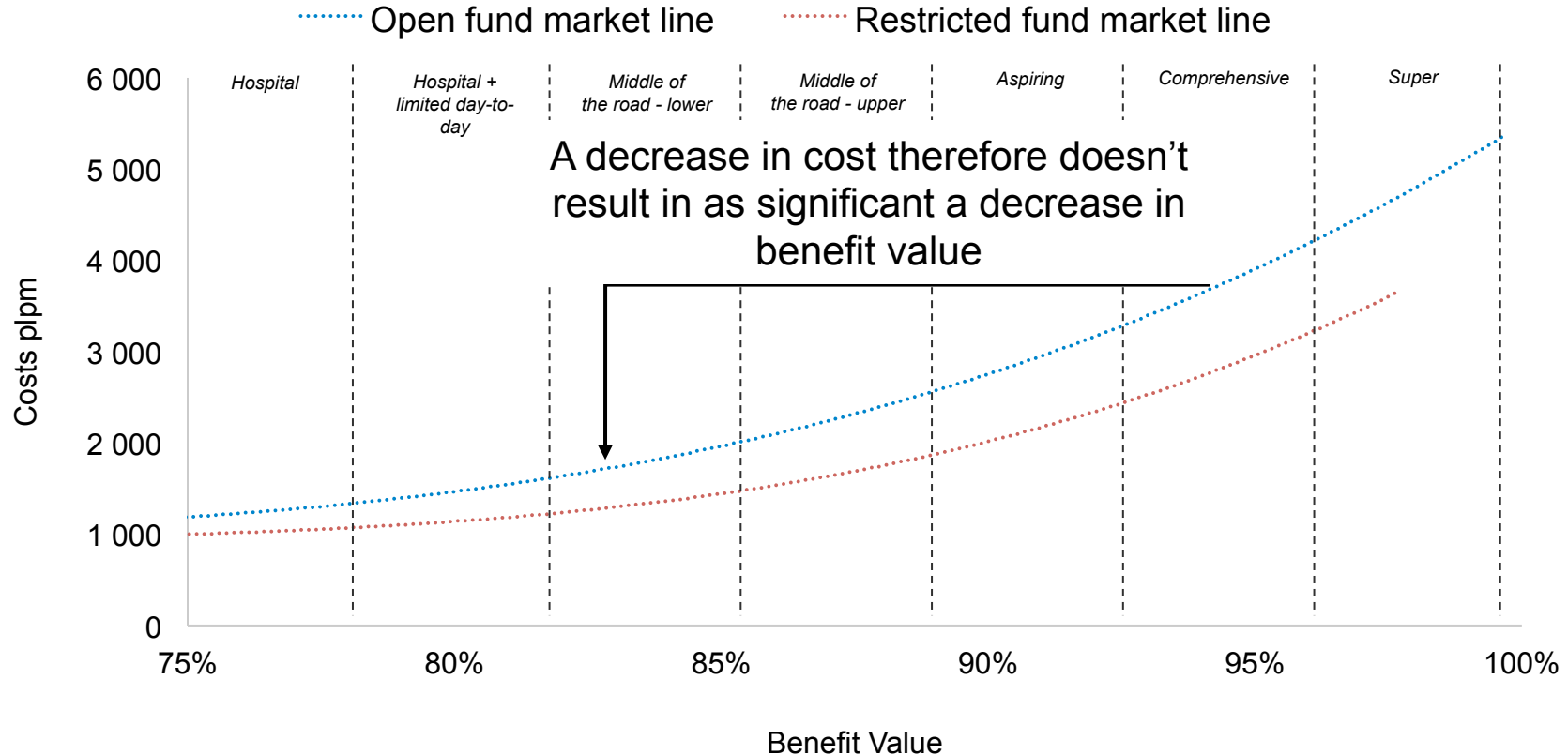
People make decisions based on potential value of losses and gains rather than final outcome

**Specific risk:** Unknown incidence and cost of disease

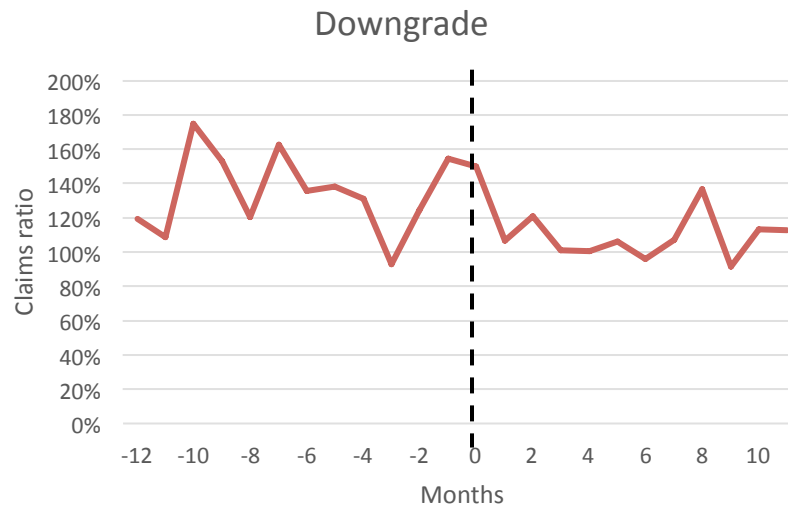
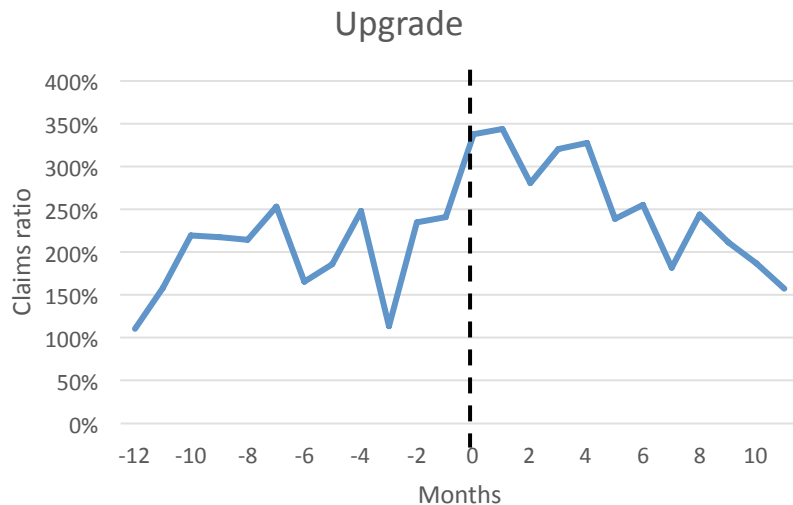
# Signal Model Application



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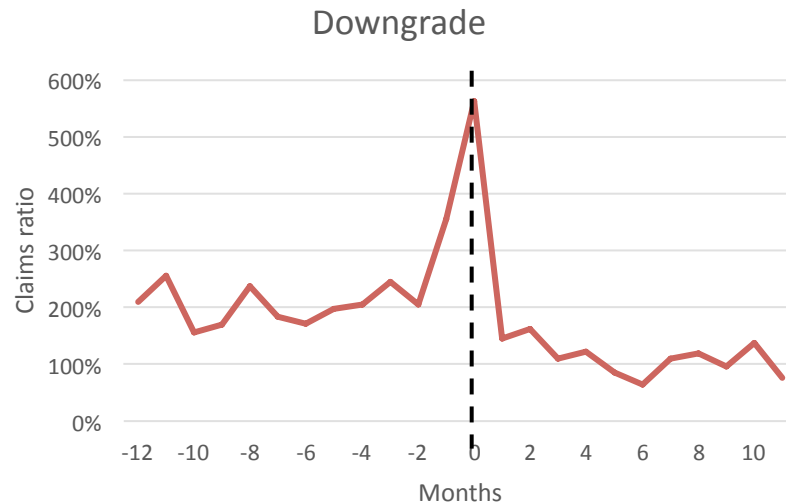
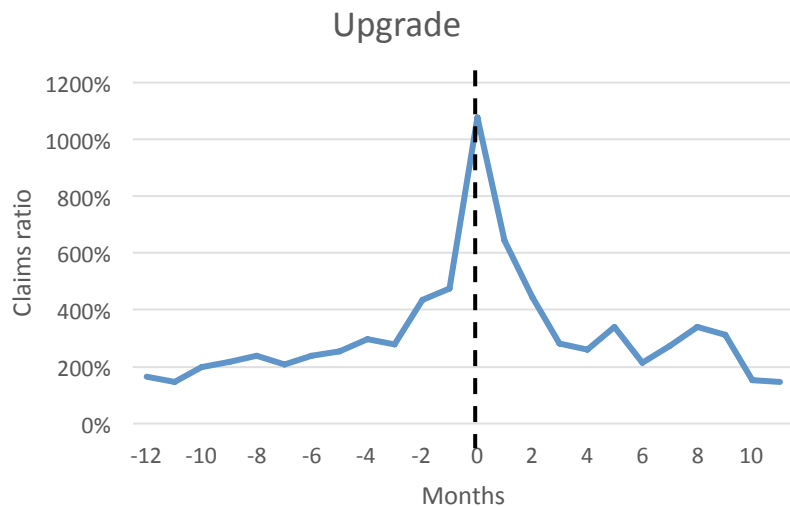


# Option selection at the start of the year





# Option selection through out the year

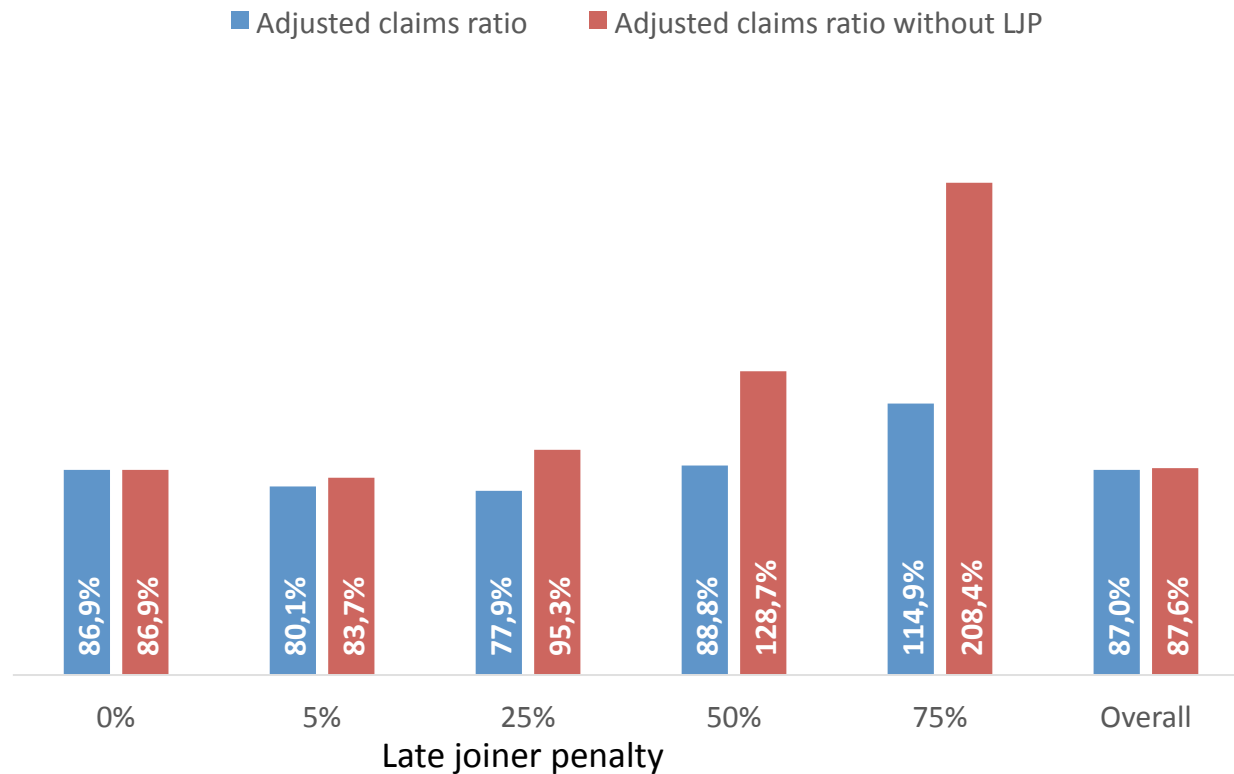




## Anti-selection

Impact of Late Joiner Penalties

# Types of option selection



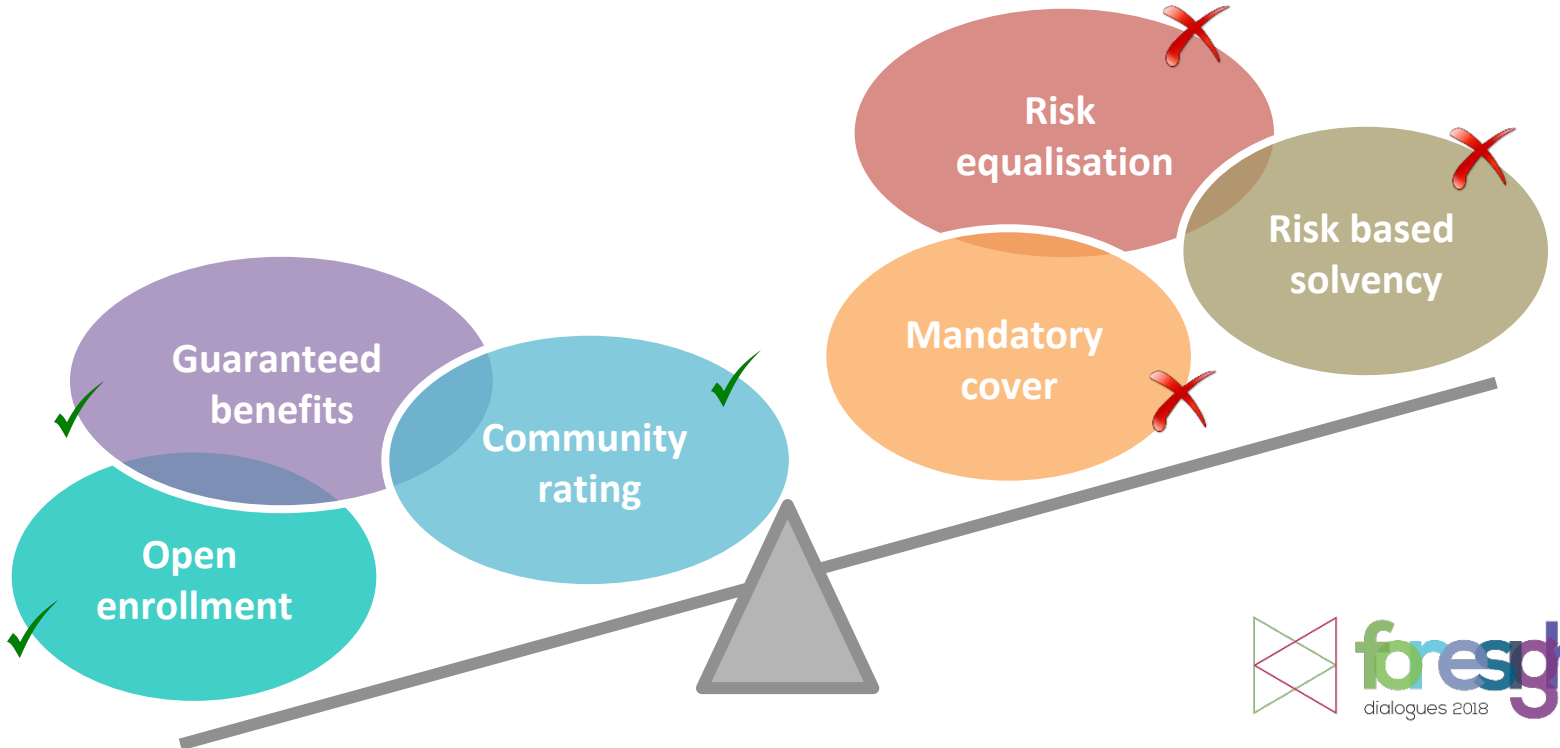


# Anti-selection

Solutions

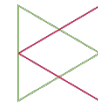
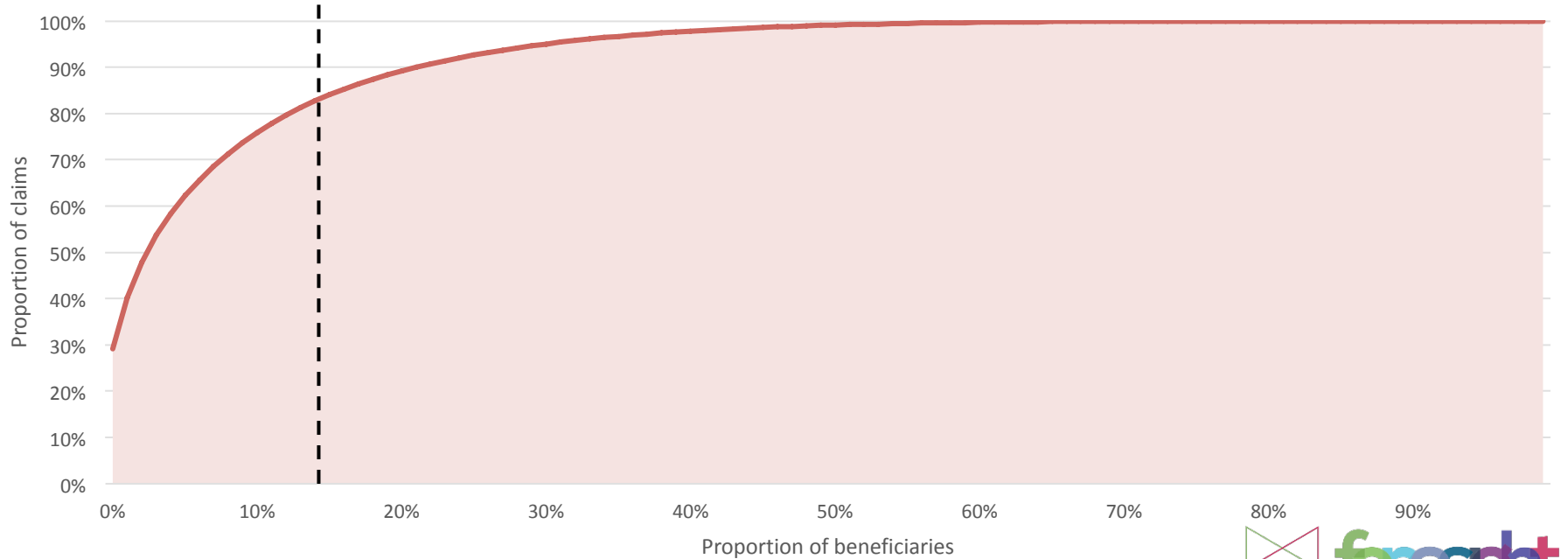
# Mandatory cover

Regulatory limbo not resolving issues of anti-selection



# Lobbying for greater underwriting measures

Follows insurance trends but is regressive



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## Underwriting on option movements

Requiring buy down to EDO first

Comprehensive



Comprehensive EDO



Middle of the Road option





## Marketing framing

Focus on loss of benefits

### **Framing effect** ***“Asking the right question”***

Call centres and brokers can focus on the loss of benefits instead of the gain in disposable income

## Taxation reform (REF and Mandatory Cover Lite)

Taxation of those without cover into a fund to support medical schemes

Suffering anti-selection

Medical schemes

Funding mechanism

Anti-selection fund

Taxation base

Those without cover

**THANK  
YOU**