



Making financial markets work for the poor

**A DEMAND-SIDE PERSPECTIVE ON HOSPITAL CASH PLANS IN  
SOUTH AFRICA**

**3 DECEMBER 2013**

**FinMark Trust**

**PREPARED BY: THE CORPORATE RESEARCH CONSULTANCY (CAPE) CC**

## 1. EXECUTIVE SUMMARY

---

There is an ongoing debate regarding the role of health insurance products such as Hospital Cash Plans (HCPs) vis-a-vis medical schemes in South Africa. In order to obtain a deeper understanding of the dynamics of the demand-side of HCPs from the consumer point of view, a series of 10 focus group discussions were conducted with current and potential clients of HCPs during the last week of September 2013 and the first week of October 2013. The discussions were conducted in Johannesburg and Durban, which were identified by suppliers as the most important markets for the product. The sample consisted of 6 groups with current HCPs clients and 4 with potential clients who had experienced a recent medical event.

The main findings of the research are summarised below:

### ***Meeting medical expenses***

The findings suggest that medical or healthcare expenses are not a top priority expense in people's regular budgets. Nevertheless, paying for medical expenses when they do arise is challenging.

When medical care is required, all participants indicated that they would prefer to go to private facilities since public facilities are not up to standard, with long queues, bad service, inferior healthcare and unsanitary conditions. Private facilities are however not affordable and the majority of the market under investigation is forced to make use of public facilities that are either free of charge or charge a minimal fee.

When individuals do have money available (usually at the beginning or end of the month) they prefer to make use of private doctors. When they suspect that they suffer from a serious condition, they are also more inclined to consult a doctor in private practise, regardless of the time of month.

Most respondents cannot afford such medical expenses as part of their normal household budget. The minority of respondents who belong to a medical aid will use it to cover their expenses. However, current medical aid options are regarded as too expensive for the majority of the market under investigation. For them,

---

borrowing money in order to cover the costs is the most common strategy.

### ***Awareness and perceptions of medical cover options***

In terms of different products available to cover medical expenses, awareness is highest for HCPs, followed by medical aid.

Although medical aid is aspirational and perceived to afford preferential and superior treatment at private facilities, it is not affordable and therefore not an option for the majority of this market. It is also seen as restrictive (some options limit the member to certain doctors and hospitals, do not cover all procedures, etc.) and a definite loss if not used/claimed against. Most respondents would find medical aid attractive if it had been more affordable and offered less restrictive benefits. As they cannot afford it, however, they look elsewhere in terms of coping with medical expenses.

It was clear that confusion exists between the terms "hospital plans" and "hospital cash plans", which were perceived as one and the same thing. Many owners of HCPs were under the impression that their product is called a hospital plan. Yet when they were probed about the features and benefits, they displayed a good understanding of HCPs and were clear about the fact that a HCP pays a predefined benefit for the number of days they spend in hospital – as opposed to a medical aid or hospital plan which reimburses the healthcare provider. They consider HCPs to be affordable, especially because one can choose your own premium according to your disposable income.

### ***Views on HCPs***

Two aspects stand out across the groups as the main advantages of HCPs:

- The main advantage of HCPs is the cash amount that is paid out, not only is the cover amount per day very attractive, it is also paid out to the holder of the plan to spend as s/he wishes.
- Respondents are also attracted by the perceived **peace of mind** that HCPs provide.

The main disadvantage and therefore also the feature of HCPs that current and potential clients would like to see changed, is the requirement that one must be

---

hospitalised for at least 3 days in order to claim.

***What payout is used/intended for:***

Current and potential clients have used or intend to use a pay-out from their HCP in various ways:

The majority of respondents regard their cash payout as an income replacement (the breadwinner will most probably not earn an income during hospitalisation), that will be used to pay for top priority monthly expenses which include groceries/food, school fees, accounts/bills/water & electricity, as well as to settle general debt incurred as a result of being in hospital. Although some claim that they will also use the pay-out to pay back loans, to save money for further medical expenses or a rainy day, to treat themselves or to fund medication that they might take for some time after they have been discharged from hospital, the main application of the pay-out will be to replace income that is lost due to hospitalisation.

***Buying process dynamics***

- Television advertising where consumers are invited to SMS their details and then be called back to receive a more detailed explanation of the product appears to be a very effective way of creating awareness of HCPs. Mention was also made of representatives/brokers who came to the workplace to speak about the product and upselling that took place after another financial product was bought. This indicates that, similar to other insurance products, HCPs are sold and not bought.
- Those who went through the buying process reported a positive experience.

***Claims process experience***

- Contrary to a positive buying experience, the claims process is generally experienced negatively. In addition to providing a copy of their ID, comprehensive medical reports are required. These can take very long to be obtained and, in Durban in particular, cases were reported where claimants had to pay the doctor and hospital to get copies of the reports.
  - Financial constraints will be the main reason why HCPs will be cancelled; bad
-

service and rejected claims (unfairly in their perception) as well as a feeling of "losing out" (i.e. paying premiums every month without any opportunity to claim) might also lead to dissatisfaction and cancellation.

***Awareness of fraud in the HCP market***

- Individuals in Durban, in particular, were aware of customer fraud with respect to HCPs. All were aware of the negative impact of such activities, mainly in terms of complicating the claims process (i.e. making it longer and more tedious), but also in that it will lead to premium increases.
-