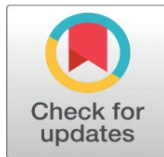


# EXPLORING THE EXPENDITURE ON MARKETING IN SOUTH AFRICAN MEDICAL SCHEMES

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## ABSTRACT

This review explores the expenditure on marketing in South African medical schemes, which provide healthcare coverage to members in exchange for premium payments. The marketing services offered by these schemes aim to raise awareness, communicate value propositions, target specific demographics, educate, and inform, engage members, and ensure compliance and ethics. The study investigates the variations in marketing expenses based on scheme size, market position, and marketing objectives. It also examines the relationship between marketing costs and membership growth.

Transparency, regulation, and improved reporting of marketing activities in the financial statements of medical schemes are highlighted as crucial. Key recommendations include establishing Key Performance Indicators KPIs between schemes and service providers, separating payment for performance indicators from member transfer costs, and collaborating with relevant regulatory bodies to protect consumer interests. The study also suggests maintaining marketing and distribution expenses below certain thresholds and registering and regulating entities involved in marketing-related services.

Proposed regulatory bodies for collaboration include the Advertising Regulatory Board, National Consumer Commission, Consumer Goods and Services Ombudsman, and Independent Communications Authority of South Africa. By addressing these issues, medical schemes can enhance the effectiveness of their marketing efforts, improve member value, and ensure compliance with regulatory requirements.

**Keywords:** Expenditure on Marketing, South African Medical Schemes, Healthcare Coverage, Transparency and Regulation, Marketing Expenses, Membership Growth

## 1. INTRODUCTION

A medical scheme, also referred to as a health insurance scheme or medical insurance scheme, serves as an organization that offers healthcare coverage or insurance to its members in exchange for regular premium payments [McLeod & Ramjee \(2007\)](#), [Erasmus et al. \(2016\)](#), [Kaplan & Ranchod \(2014\)](#), [Costa \(2018\)](#). These schemes are specifically designed to assist individuals and their families in covering various medical expenses, such as consultations, treatments, medications, and hospitalization [McLeod & Ramjee \(2007\)](#), [Erasmus et al. \(2016\)](#), [Kaplan & Ranchod \(2014\)](#), [Costa \(2018\)](#). Operating on a pool of funds members contribute,

medical schemes utilize these funds to provide the healthcare services and benefits outlined in their coverage plans [McLeod & Ramjee \(2007\)](#). The nature and extent of benefits and services offered by a medical scheme can vary, depending on the scheme itself, the selected options or plans, and the regulatory framework governing it [McLeod & Ramjee \(2007\)](#), [Erasmus et al. \(2016\)](#), [Kaplan & Ranchod \(2014\)](#), [Costa \(2018\)](#). In South Africa, the Council for Medical Schemes (CMS) serves as the regulatory body responsible for overseeing medical schemes [McLeod & Ramjee \(2007\)](#), [Erasmus et al. \(2016\)](#), [Kaplan & Ranchod \(2014\)](#), [Costa \(2018\)](#). The CMS's primary role is to safeguard the interests of medical scheme members and ensure that these schemes operate in accordance with the Medical Schemes Act [Medical Schemes Act 131 of 1998. \(1998\)](#). There are two types of medical schemes described as follows [McLeod & Ramjee \(2007\)](#), [Medical Schemes Act 131 of 1998. \(1998\)](#):

- Open schemes refer to healthcare insurance or coverage systems that are open to anyone who meets the eligibility criteria [McLeod & Ramjee \(2007\)](#), [Willie \(2022a\)](#). These schemes are accessible to individuals or groups without any restrictions based on employment, affiliation, or other specific criteria. Open schemes are generally available to the general public and individuals can join or enroll in these schemes at any time.
- Closed schemes, on the other hand, are healthcare insurance or coverage systems that are restricted to a specific group or set of individuals [McLeod & Ramjee \(2007\)](#), [Willie \(2022a\)](#). These schemes are often tied to employment or membership in a particular organization, such as a company, union, or professional association. Closed schemes are designed to provide healthcare coverage exclusively to the members of the specified group. Eligibility for enrollment in closed schemes is typically limited to employees or members and their dependents.

As of December 2021, [Table 1](#) presents important statistics regarding medical schemes in South Africa. The data reveals that there were slightly more than seventy medical schemes registered with the CMS during this period [Council for Medical Schemes \(CMS\). \(2022\)](#). These schemes collectively provided coverage for nearly nine million individuals, constituting approximately 15 percent of the total population [Council for Medical Schemes \(CMS\). \(2022\)](#).

**Table 1**

Table 1 Medical Schemes Key Statistics	
	Measure
Number of schemes as of December 2021	72
Number of beneficiaries (Main member and their dependants): Million	8,9
Proportion of population relative to the population: %	15

Source CMS [Council for Medical Schemes \(CMS\). \(2022\)](#)

## 2. MARKETING ACVTIVITIES

The marketing services provided by medical schemes involve promoting and communicating the advantages, features, and value of healthcare coverage plans to potential members and stakeholders [Willie \(2022a\)](#), [Willie \(2022b\)](#), [Purcarea \(2019\)](#). The main aim is to attract and retain members by highlighting the benefits and unique characteristics of the medical schemes [Purcarea \(2019\)](#). Presented

below are several essential elements regarding the marketing services provided by medical schemes:

- **Plan Awareness:** The primary focus of marketing efforts is to generate awareness about the offerings of the medical scheme, including diverse healthcare plans, benefits, and coverage options available to individuals, families, or businesses [Purcareea \(2019\)](#) . Various channels such as advertising, digital marketing, social media, and direct marketing campaigns are utilized to effectively reach the intended audience [Dwivedi et al. \(2021\)](#).
- **Value Proposition:** Medical schemes emphasize their unique value proposition, which may encompass comprehensive coverage, access to an extensive network of healthcare providers, specialized services, wellness programs, or additional benefits [Kaplan & Ranchod \(2014\)](#). Marketing materials and campaigns are strategically crafted to highlight these distinguishing features, showcasing how the scheme outshines competitors and provides additional value to potential members.
- **Targeted Messaging:** Marketing services tailor their messaging to specific target demographics, such as different age groups, professions, or geographical locations [Camilleri \(2018\)](#). By comprehending the needs and preferences of these specific segments, marketing campaigns effectively communicate the benefits of the medical scheme and resonate with the intended audience [De Villiers et al. \(2020\)](#).
- **Education and Information:** Medical schemes proactively provide educational content and information to assist potential members in understanding the complexities of healthcare coverage [Kaplan & Ranchod \(2014\)](#), [Competition Commission of South Africa \(2019\)](#), [Nkomo et al. \(2019\)](#). This includes elucidating terms, conditions, and benefits in a clear and accessible manner through various mediums such as brochures, websites, videos, and webinars. The objective is to inform and guide individuals during their decision-making process [Nkomo et al. \(2019\)](#).
- **Member Engagement:** Marketing services also prioritize engaging existing members to enhance their experience and foster loyalty [Nel \(2020\)](#). This involves personalized communication, member-exclusive offers or discounts, wellness programs, feedback mechanisms, and responsive customer service. By cultivating a positive member experience, medical schemes aim to retain members and encourage word-of-mouth recommendations [Nel \(2020\)](#).
- **Compliance and Ethics:** Marketing services within medical schemes adhere to regulatory requirements and ethical guidelines in their promotional activities [Mofokeng \(2020\)](#). They ensure transparency and accuracy when communicating plan details, avoid disseminating misleading information, and consistently prioritize the interests of their members throughout their marketing endeavors [Mofokeng \(2020\)](#).

### 3. MARKETING EXPENDITURE

To achieve desired outcomes, it is important to tailor marketing efforts and consider cost-related factors that are relevant to specific target markets [Willie \(2022b\)](#), [Camilleri \(2018\)](#). Previous studies have emphasized the need for marketing strategies to focus on providing customers with high-quality products at affordable prices [Morgan et al. \(2019\)](#). However, in the medical schemes industry, there is a lack of comprehensive reporting on marketing costs, including key

components such as advertising and customer acquisition activities [Willie \(2022a\)](#), [Willie \(2022b\)](#) , [Competition Commission of South Africa \(2019\)](#). This poses challenges in assessing the value of marketing initiatives to customers. Within the South African medical schemes sector, there are significant variations in marketing expenses, which are influenced by factors such as the size of the scheme, its market position, and specific marketing objectives [Willie \(2022a\)](#) , [Willie \(2022b\)](#) [Council for Medical Schemes \(CMS\). \(2022\)](#). Sizeable schemes that boast a substantial membership base and a well-established brand presence often earmark more substantial budgets for their marketing endeavours, encompassing initiatives such as advertising campaigns, digital marketing efforts, sponsorships, and promotional events [Council for Medical Schemes \(CMS\). \(2022\)](#). In 2021, medical schemes accumulated a total of R226 billion in revenue, as shown in [Table 2 Council for Medical Schemes \(CMS\). \(2022\)](#). The breakdown reveals that marketing and distribution fees constituted 0.53% of the Gross Contribution Income (GCI) and 7.99% of the Gross Administration Expenses (GAE) for the same period [Council for Medical Schemes \(CMS\). \(2022\)](#). This data indicates that marketing expenses make up a substantial portion of the overall gross administration fees [Council for Medical Schemes \(CMS\). \(2022\)](#).

**Table 2**

**Table 2 Medical Scheme Gross Contribution Income and Marketing Expenditure-2020-21**

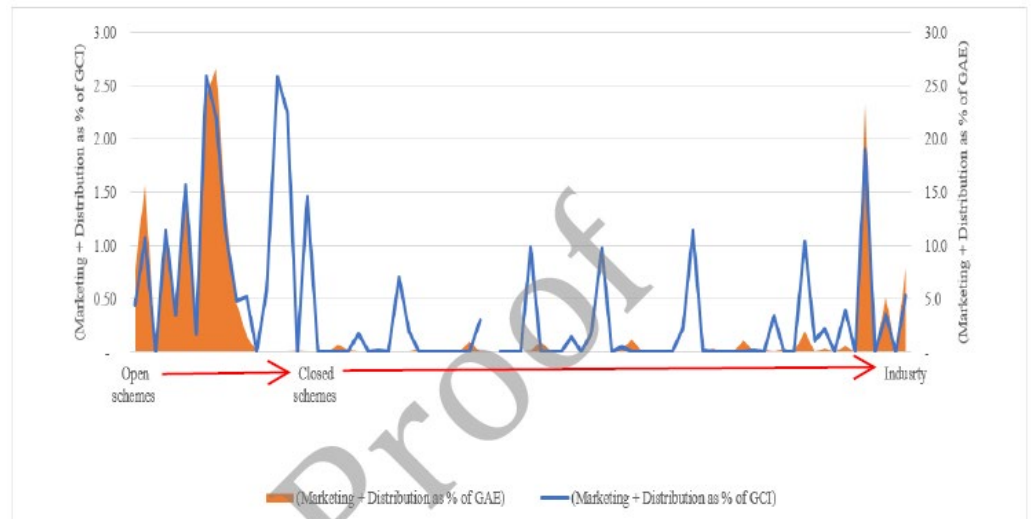
	2021	2020
Gross Contribution Income (GCI) R'000	225,646,103	219,426,913
Gross administration expenditure (GAE) (Risk +PMSA) R'000	14,960,310	14,350,245
Marketing and advertising R'000	1,195,330	1,124,188
Distribution fees R'000	4	10
Broker fees R'000	2,521,525	2,539,194
Marketing + Distribution as % of GCI	0.53%	0.51%
Marketing + Distribution as % of GAE	7.99%	7.83%

**Source** author own construction from the CMS Industry report [Council for Medical Schemes \(CMS\). \(2022\)](#)

While the CMS primarily regulates medical schemes themselves, they may have certain guidelines or requirements related to the marketing activities of medical schemes [CMS. \(2023\)](#). However, specific marketing service providers, as separate entities, might not be directly regulated by the [CMS. \(2023\)](#). Furthermore, the current lack of regulation extends to distribution fees, marketing, and advertising costs [CMS. \(2023\)](#). This absence of reporting and oversight creates challenges in understanding the significant cost factors that impact marketing expenses and their relationship with membership growth [Council for Medical Schemes \(CMS\). \(2022\)](#). The industry report on CMS illustrates contrasting patterns regarding the rise in marketing expenses and the growth in membership [Council for Medical Schemes \(CMS\). \(2022\)](#). This observation highlights the need for further investigation into the correlation between these two factors. Membership in medical schemes is commonly utilized as a gauge of scheme performance, and an upsurge in membership can contribute to increased contribution income for the scheme. Nevertheless, there is inadequate reporting of marketing costs in medical schemes, which encompasses advertising and customer acquisition activities [Competition Commission of South Africa \(2019\)](#). This absence of transparency and oversight poses a challenge in comprehending the crucial factors that contribute to the rise in marketing expenses and their connection to membership growth.

The graph below depicts variation in marketing and distribution expenditure as a proportion of gross administration expenditure. Though the industry marketing expenditure and distribution was around 0.5% as a proportion of GCI, there were notable cases of schemes that spend as high as two percent of gross, notably there was one closed scheme that spend as more than 20% of marketing expenditure as a proportion of GEA which was an outlier, in particular for open schemes. The graph also shows some schemes that spend more than a percent of GCI on marketing and distribution expenditure. Willie (2022a) recommended that marketing and distribution expenditure be kept below 0.5% of GCI unless adequately motivated. He further recommended that these fees be regulated to ensure value and scheme performance Willie (2022a).

**Figure 1**



**Figure 1** Marketing Expenditure as a Proportion of GCI and GAE-2021 by Scheme Type

**Source** Own Construct from CMS Industry Report

Open medical schemes, allocate a significant portion of their budgets to marketing and distribution expenses compared to closed schemes Council for Medical Schemes (CMS). (2022), Competition Commission of South Africa (2019), Willie (2022a). Open schemes, which accept new members throughout the year, face fierce competition in attracting and retaining members Council for Medical Schemes (CMS). (2022), Competition Commission of South Africa (2019), Willie (2022a). Consequently, they invest more resources in marketing initiatives to raise awareness about their offerings and differentiate themselves from competitors Council for Medical Schemes (CMS). (2022), Competition Commission of South Africa (2019), Willie (2022). Additionally, open schemes typically have a broader membership base encompassing individuals and families from diverse demographics, necessitating more resources to reach and communicate with a larger audience Council for Medical Schemes (CMS). (2022), Competition Commission of South Africa (2019), Willie (2022a).

#### 4. DISCUSSIONS AND FINDINGS

Effective marketing is crucial for attracting new members and keeping existing members informed about plan changes, benefits, and enrolment periods Rangaswamy et al. (2020). Each scheme's marketing and distribution expenditure is influenced by its specific business strategies, competition, regulatory



requirements, and member retention goals [Kotler and Armstrong \(2010\)](#), [Kotler & Armstrong \(2019\)](#). Studies have shown the impact of marketing strategies on organizational performance [Rodriguez et al. \(2012\)](#), [Gbolagade et al. \(2013\)](#), [Owomoyela et al. \(2013\)](#). Therefore, establishing effective marketing strategies aligned with specific market segments and allocating resources accordingly is crucial. However, the healthcare sector presents unique challenges due to the inherent nature of its services as a public good. As a result, the development and implementation of effective marketing strategies and consumer engagement plans for health insurance become complex for payers operating within the current purchasing landscape. When considering medical scheme costs, broker fees constitute a significant portion of non-healthcare expenses, while distribution fees, marketing, and advertising fees represent a smaller percentage [Council for Medical Schemes \(CMS\). \(2022\)](#). However, the increase in broker costs does not always correlate with membership growth [Council for Medical Schemes \(CMS\). \(2022\)](#). It is worth noting that marketing costs and advertising fees, despite constituting a minor portion of overall brokerage fees, lack regulation and standardized monitoring mechanisms [Council for Medical Schemes \(CMS\). \(2022\)](#). [Willie \(2022\)](#) recommends that marketing and distribution expenses should be kept below 0.5% of Gross Contribution Income GCI and less than 1% of Gross Annual Expenditure GAE. Any deviation from these thresholds should be justified and approved by the regulatory authority [Willie \(2022\)](#). Evaluating the value offered to members, particularly regarding brokerage services and marketing fees, is essential. Transparency should be ensured to allow members to approve and be informed about such services [Nkomo et al. \(2019\)](#), [Mofokeng \(2020\)](#).

## 5. CONCLUSION AND RECOMMENDATIONS

The lack of regulatory oversight over marketing expenditure is evident, as marketing services provided by third-party providers are currently outside the scope of the Medical Schemes Act. However, the Board of Trustees (BoT) is empowered in its oversight role to develop tools that ensure contracted parties deliver value to the members. To address these challenges, it is recommended to incorporate well-defined Key Performance Indicators KPIs linked to performance into marketing and advertising services within medical schemes. This will establish benchmarks between schemes and service providers, enabling effective evaluation. Furthermore, enhancing the reporting of marketing and advertising services in financial statements, with a focus on assessing their value and performance, is crucial. These measures aim to improve the efficiency and transparency of marketing and advertising services, ultimately benefiting the members of medical schemes. The report suggests the registration and regulation of entities involved in marketing-related services. Additionally, it emphasizes the importance of collaborating with other regulatory bodies within this framework. The study recommends collaboration between the CMS and the following regulators to ensure adequate protection for members,

- **Advertising Regulatory Board (ARB):** The ARB is a self-regulatory body for the advertising industry in South Africa. They ensure that advertising is legal, honest, and truthful. The ARB considers complaints from consumers, competitors, and other stakeholders and can take action against misleading, offensive, or unethical advertising.
- **National Consumer Commission (NCC):** The NCC is responsible for enforcing consumer protection laws in South Africa. They handle consumer complaints, investigate unfair business practices, and take action against

companies that violate consumer rights. While they may not specifically focus on advertising, they play a crucial role in protecting consumers' interests.

- **Consumer Goods and Services Ombudsman (CGSO):** The CGSO is an independent dispute resolution body that deals with consumer complaints related to goods and services in South Africa. While not directly involved in advertising regulation, they provide an avenue for consumers to resolve disputes with companies, which may include issues related to misleading advertising.
- **Independent Communications Authority of South Africa (ICASA):** ICASA is responsible for regulating the broadcasting, telecommunications, and postal industries in South Africa. They oversee advertising standards in the broadcasting and telecommunications sectors, including ensuring that advertisements comply with relevant codes and regulations.

## CONFLICT OF INTERESTS

None.

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