

# Medical scheme consolidation trends

Healthcare CPD Day – 29 May 2014



# Recipe

- A successful scheme is much like a cake recipe:
  - Raw Ingredients – flour, egg, sugar, milk
  - Process for combining ingredients – Sifting the flour, mixing the batter until smooth
  - Put it in the oven and keep an eye on it



# Raw Ingredients



- For a scheme to be healthy it requires:
  - A sufficiently large risk pool
  - Sufficient reserves
  - Young, healthy membership

# Raw Ingredients

- Large Risk Pool:
  - Stability of Claims experience
  - Buying power
  - Scale for investment
  - Influence on environment



Source	Minimum	Open	Closed	Total
According to CMS	6 000 (members)			
All Risk - Milliman	20 000+(lives)	8	44	52

Failed to meet minimums in 2012

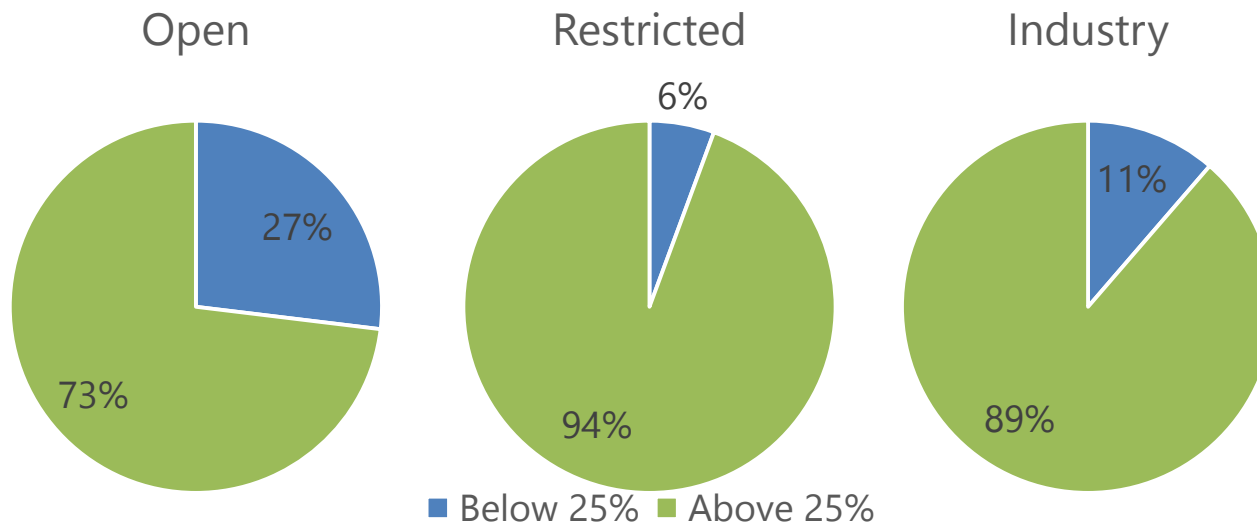
Assuming this is appropriate to SA Industry

Implies most schemes are too small to survive

Merger with a larger scheme is required

# Raw Ingredients

- Sufficient Reserves:
  - Absorb Claims volatility
  - Smooth contribution increases

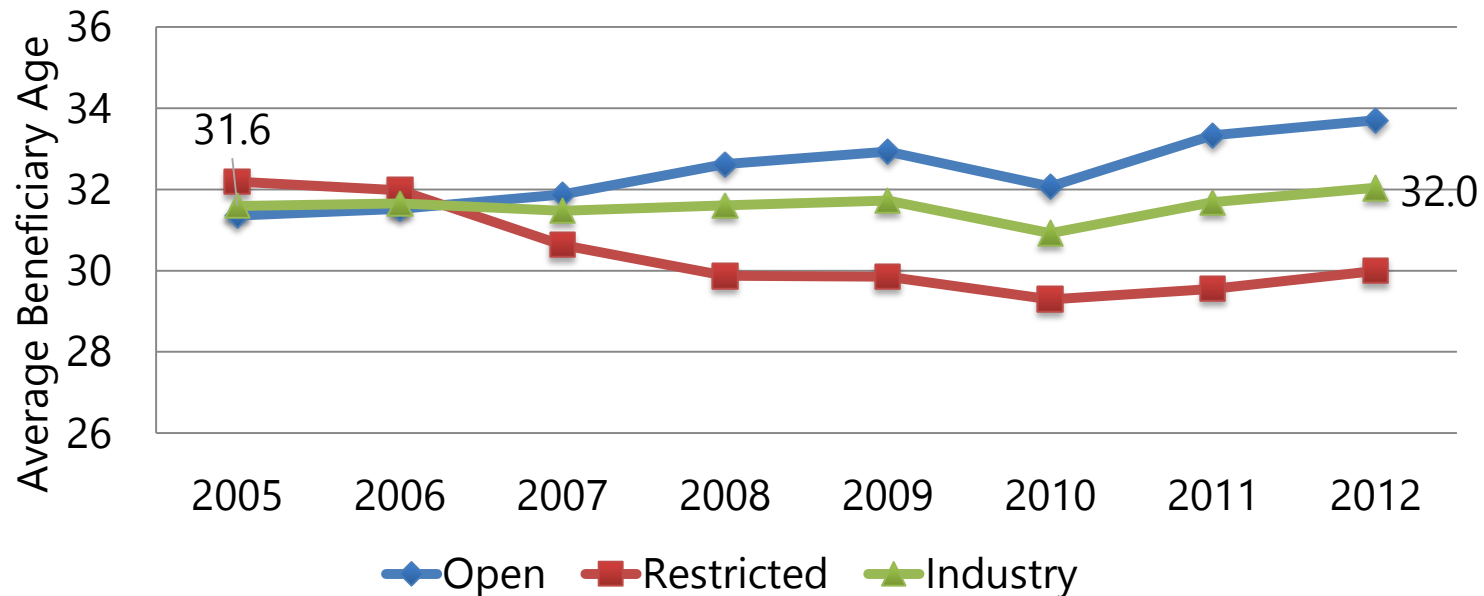


\* Scheme count as per 2013 CMS Report



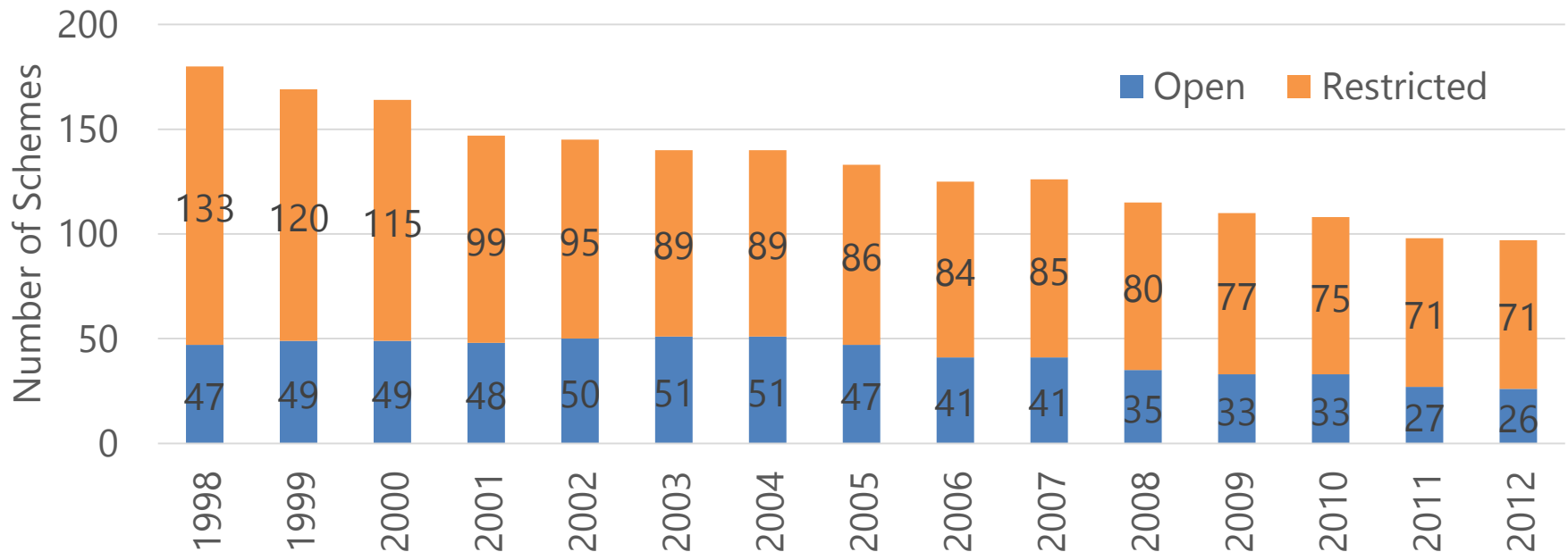
# Raw Ingredients

- Young, healthy risk profile:
  - Lower average ages
  - Lower claims
  - Lower contributions
  - Larger family sizes – more beneficiaries



# The Oven

- The scheme environment is the oven:
  - PMBs, Community Rating, Open Enrolment
  - Medical scheme industry growth is slow
  - Health insurance
  - Schemes are becoming fewer



# The Bakery

- The bakery – the end result for consumption
- Fewer schemes:
  - Less benefit variety for members/ employers
  - Fewer distinct players in the market
    - Slows innovation
    - Fewer minds to tackle the problem
    - Risk of everyone just “following the leader”



# The Bakery

- Question: what are the trends as schemes consolidate? Who, where, why, how?



# Methodology

- Purely observational study
- Considered amalgamations or intentions to amalgamate as circulated by the CMS from 2010 onwards
- Also considered liquidations and wholesale transfer of members to another scheme (Siemens)
- 21 cases considered, including those rejected



# Methodology

- Two parties to any merger
- Both must benefit
- Smaller schemes join larger ones usually
- Reflective of bargaining/ market power
- Smaller schemes benefit from:
  - Larger risk pool
  - Buying power
  - Human and infrastructure resources



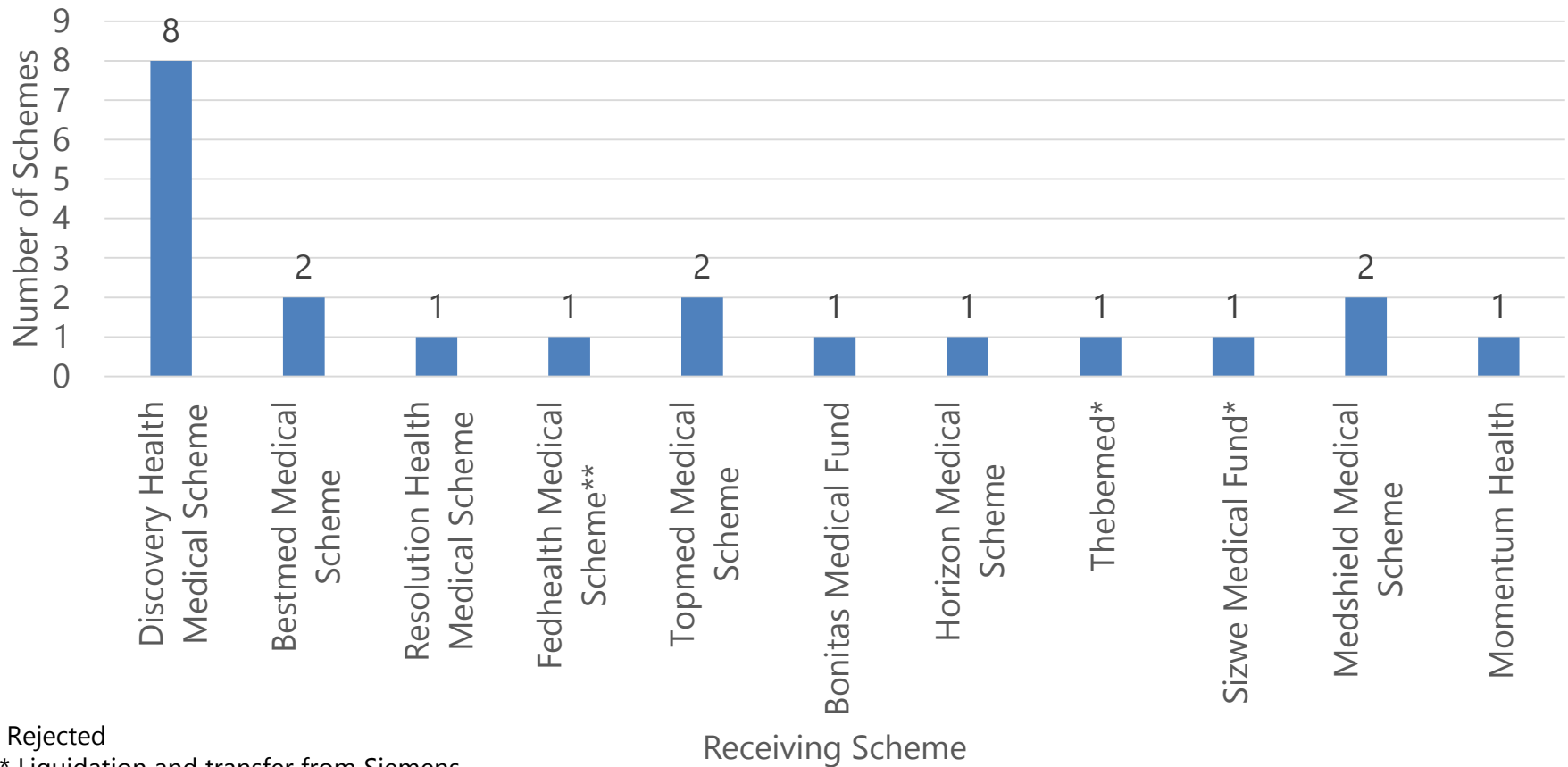
# Methodology

- Some small schemes have no choice
  - Poor profile
  - Claims experience
- But how do the larger schemes benefit?
- Who are they?
- Who are the smaller schemes they are taking on?
- What are their characteristics?



# Market Players

- Who received other schemes?

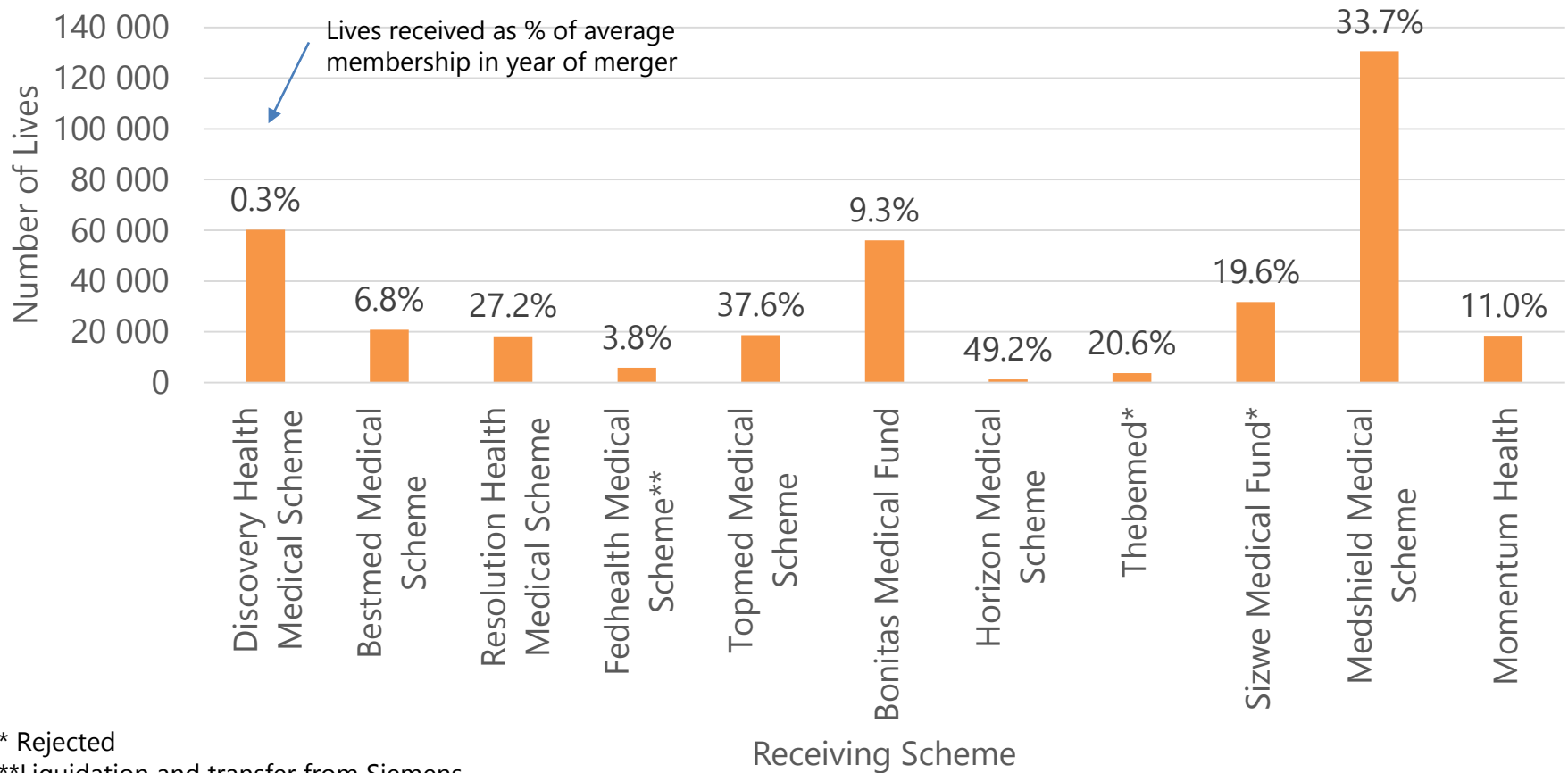


\* Rejected

\*\* Liquidation and transfer from Siemens

# Market Players

- Who received other schemes?



# Age Profile

- Determines cost of claims

Note: Average in year of amalgamation according to CMS Report.



\* Rejected

\*\* Liquidation and transfer from Siemens

Receiving Scheme

# Age Profile

- Determines cost of claims

Note: Average in year of amalgamation according to CMS Report.



\* Rejected

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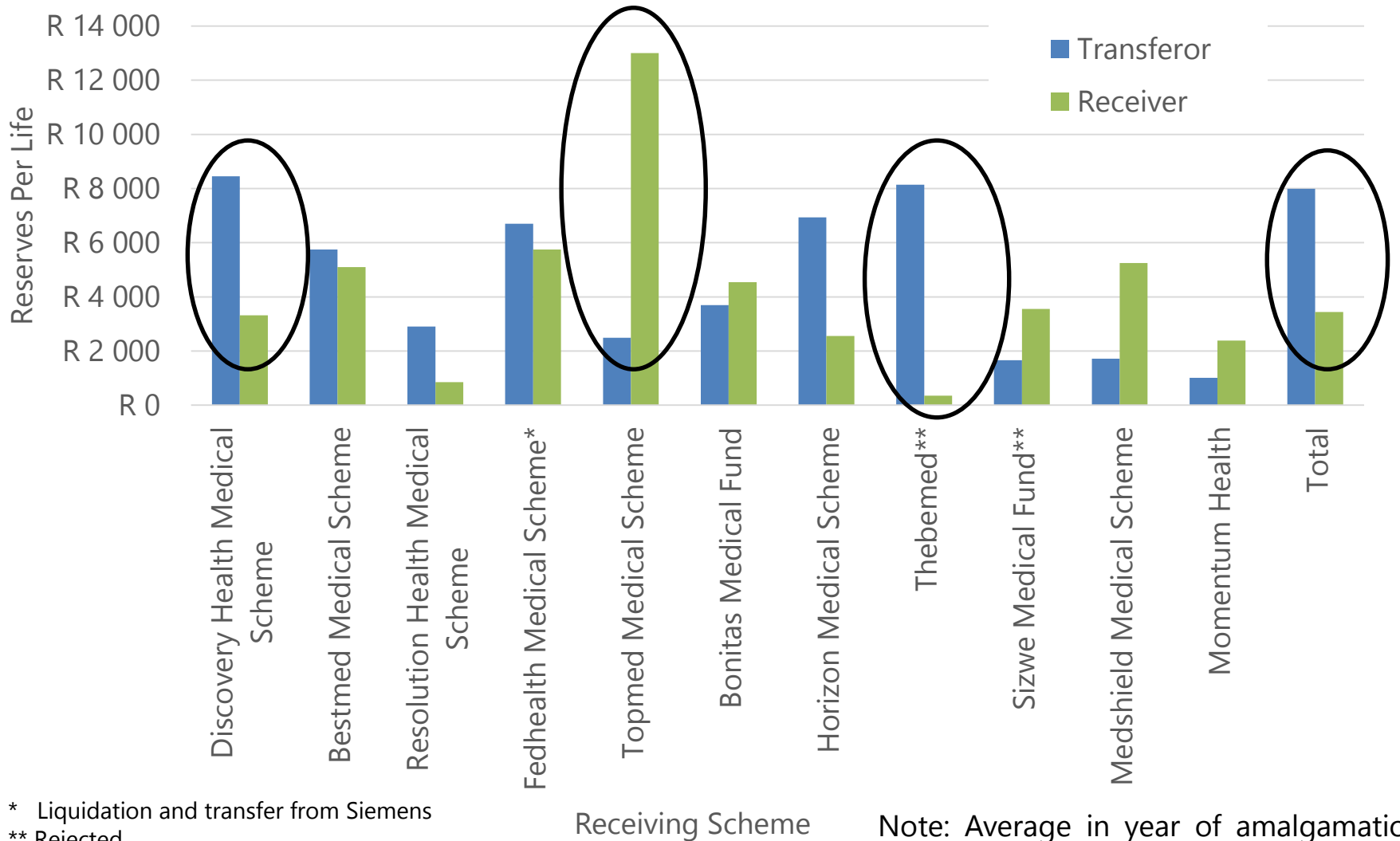
# Age Profile

- Most schemes taking on older lives and pensioners
- Generally large enough to absorb impact – Discovery, Bonitas
- What are they trading off?

# Reserves

- Transferring schemes usually bring reserves
- Could it be that schemes trade age for reserves?
- Solvency ratio not a good measure
- Influenced by Contribution levels
- Look at Reserves per Life exchanged

# Reserves



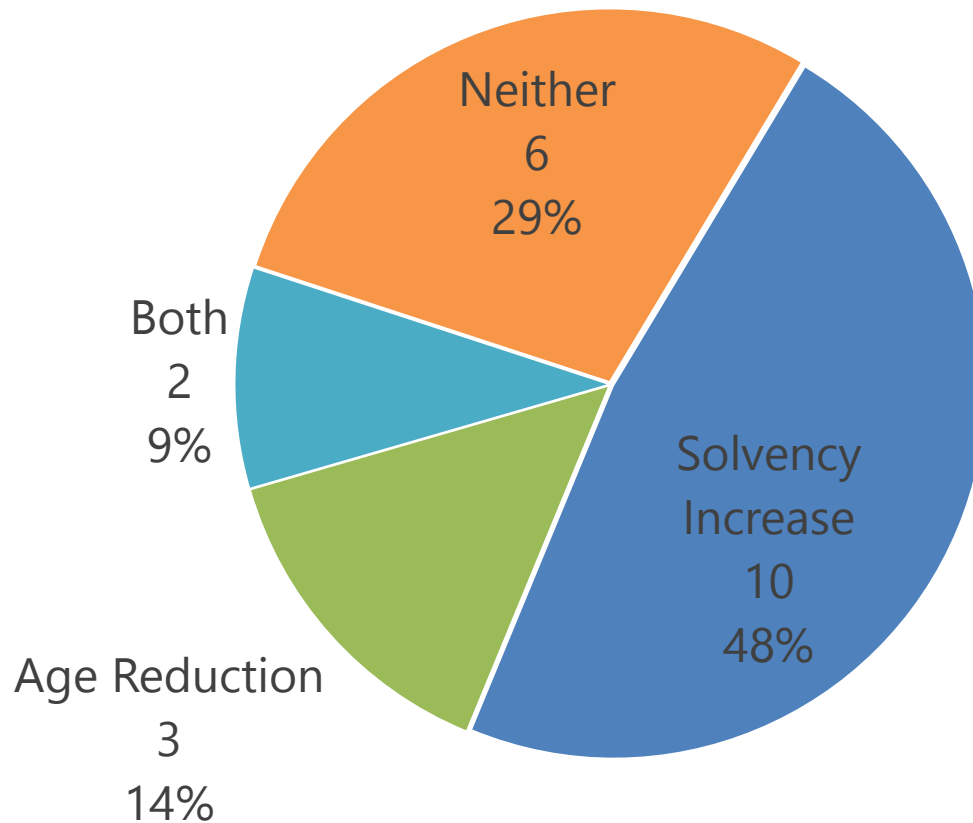
\* Liquidation and transfer from Siemens

\*\* Rejected

Note: Average in year of amalgamation according to CMS Report. Average over period. No inflationary adjustment.

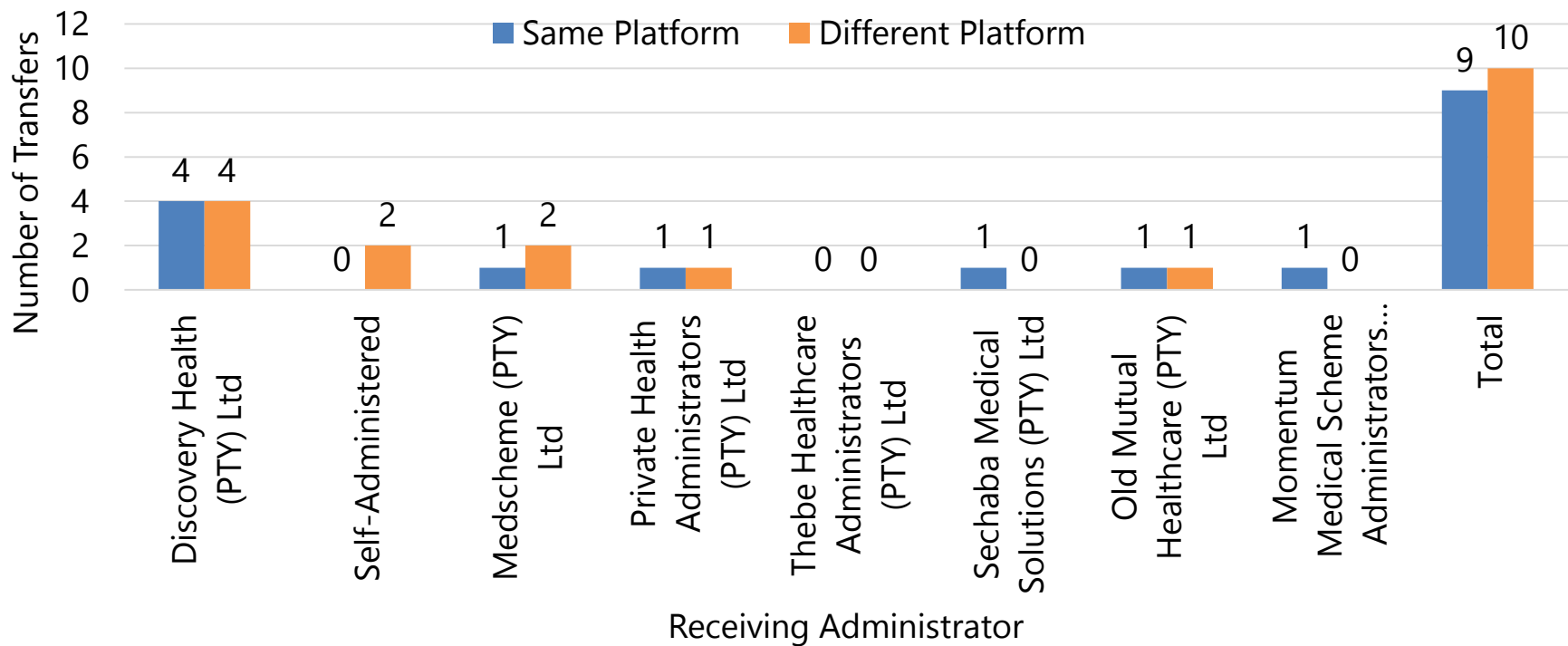
# Summary

- Benefit derived by Receiver:
  - Solvency Increase
  - Age Reduction



# Administrators

- Another point to consider:
  - Who are the administrators at play?
  - Are schemes merging with ones on the same platform?
    - Ease of transfer - Continuity



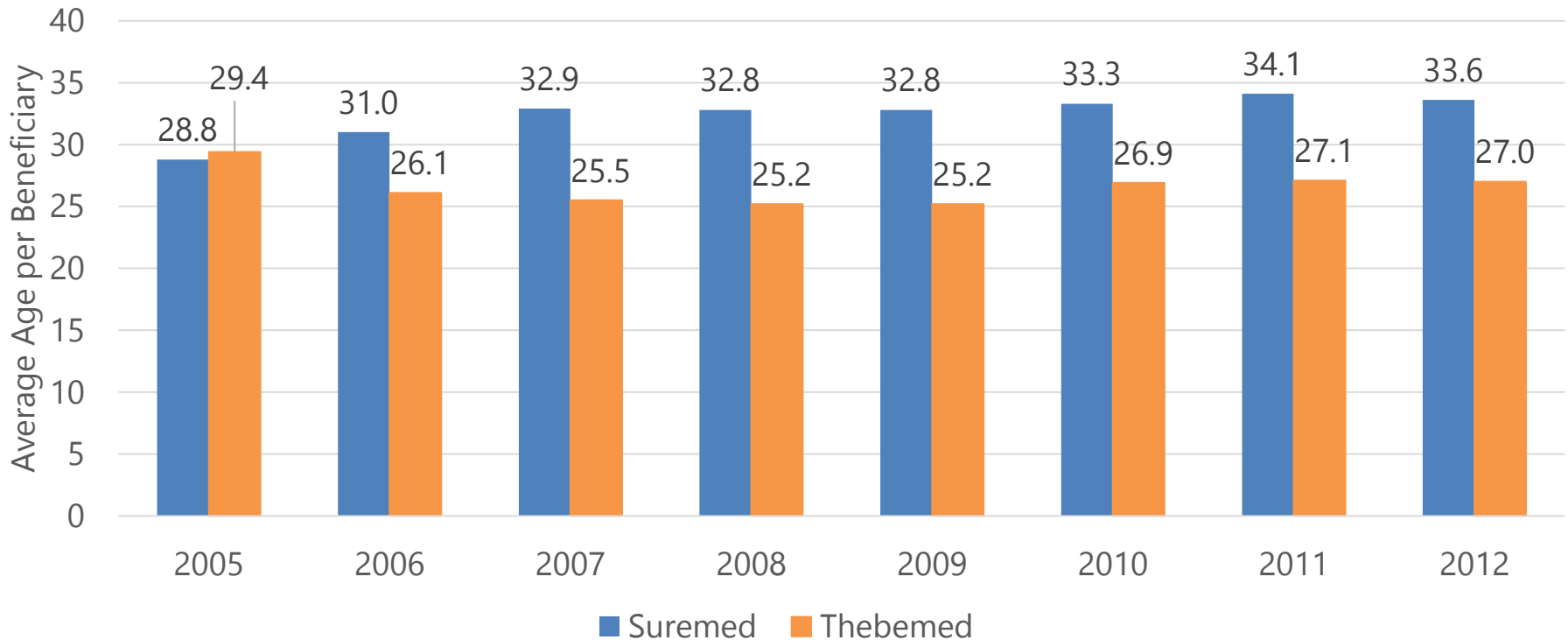
# Case Study

- Suremed and Thebemed
  - Amalgamation rejected by Suremed Members
  - Did they really need to merge?



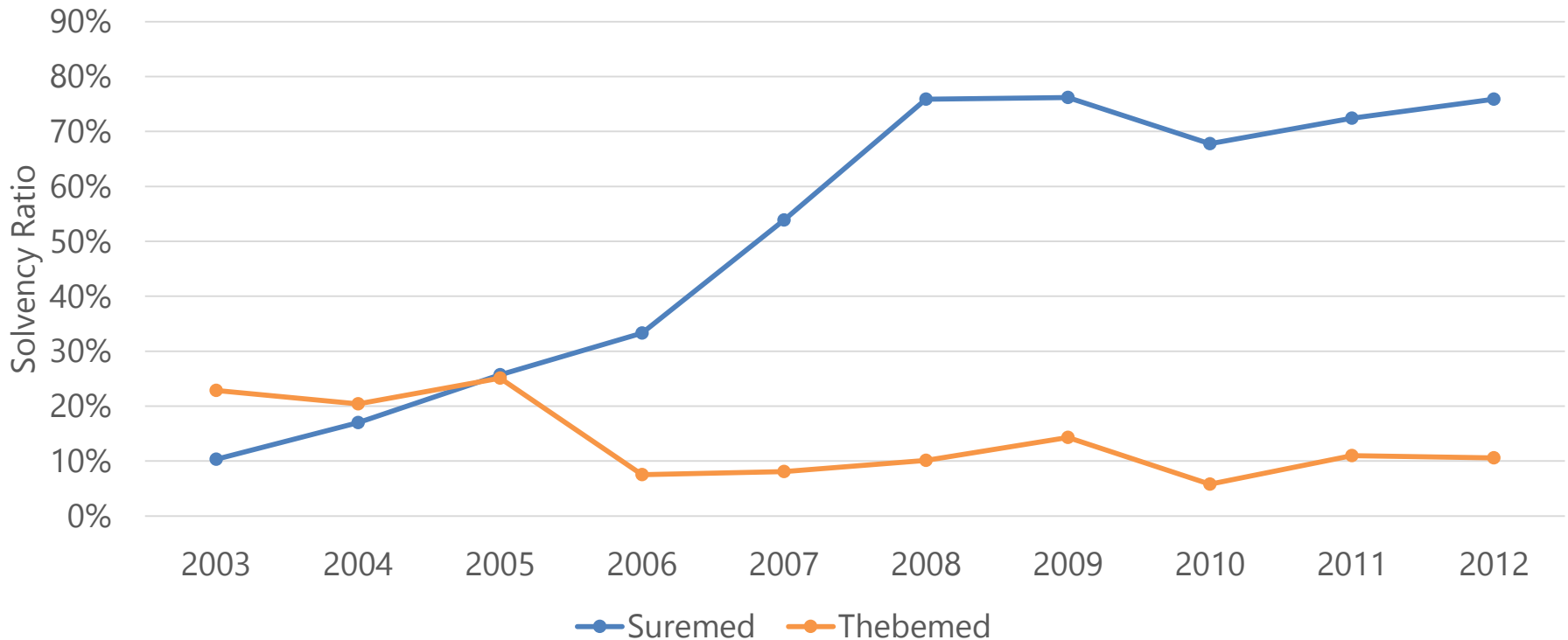
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- Suremed and Thebemed
  - Amalgamation rejected by Suremed Members
  - Did they really need to merge?
  - Probably not
  - Both are doing well despite
    - Small membership bases
    - Thebemed's low solvency
    - Suremed's slightly older age profile

# Final Thoughts

- Consolidation likely to continue
  - Driven by small schemes with high solvency and low membership bases
  - Trade solvency for joining a larger pool with a better profile
  - But it isn't always necessary

# Final Thoughts

- Its not all about the raw ingredients:
  - A good chef can still create a great dish with average ingredients
  - Similarly, differentiating factors like:
    - Good corporate governance,
    - Secure, effective systems and
    - Innovation
  - Could allow smaller schemes to thrive

# Thank you

- Questions?

