



**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option(s) as per Section 33 of the Medical Schemes Act 131 of 1998, as amended.**

**February 2011**

**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

<b>1. Introduction</b>	<b>3</b>
<b>2 Business Plan Format</b>	<b>3</b>
<b>2.1 Executive Summary</b>	<b>3</b>
2.1.1 Objective	3
<b>2.2. Medical Scheme Summary</b>	<b>3</b>
2.2.1 Background	3
<b>2.3. Strategy and implementation</b>	<b>4</b>
2.3.1 SWOT analysis	4
<b>2.4 Benefit options</b>	<b>5</b>
2.4.1 Benefit design	5
2.4.2 Analysis of benefit structures of the existing options as well as the new/restructured options	7
<b>2.5 Market Analysis</b>	<b>7</b>
2.5.1 Membership/ Target market strategy	7
2.5.2 Market Comparison	8
<b>2.6 Pricing Strategy</b>	<b>9</b>
2.6.1 Contributions	9
2.6.2 Affordability of contributions	11
2.6.3 Benefits	11
2.6.4 Non-healthcare expenditure	13
2.6.5 Reserve building	13
<b>2.7 Risk Management</b>	<b>14</b>
<b>2.8 Financial Plan</b>	<b>14</b>
<b>2.9 Independent Review</b>	<b>14</b>
<b>3. Annexures to the business plan</b>	<b>15</b>
<b>3.1 Annexure A - specimen monthly statement of comprehensive income (consolidated and per option)</b>	<b>15</b>
<b>3.2 Annexure B - specimen year-to-date statement of comprehensive income</b>	<b>17</b>

# Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

## 1. Introduction

Section 33 of the Medical Schemes Act 131 of 1998 (“Act”), as amended states:

*“A medical scheme shall apply to the Registrar for the approval of any benefit option if such a medical scheme provides members with more than one benefit option.*

*The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option –*

- a) includes the prescribed minimum benefits;*
- b) shall be self-supporting in terms of membership and financial performance;*
- c) is financially sound; and*
- d) will not jeopardise the financial soundness of any existing benefit option within the medical scheme.”*

The purpose of this document is to guide and assist medical schemes in submitting the information in the form of a business plan that will expedite the whole process of consideration of an application for approval of (a) new benefit option(s). It should be noted that this document should also be used where schemes are planning to materially restructure any of its existing registered option(s).

An option is deemed to be a restructured option when its structure changes eg. from Traditional to New Generation or Capitation to Hospital.

It is important to ensure that at all times the proposed new/restructured option(s) are in the best interest of the members of the medical scheme concerned.

## 2 Business Plan Format

### 2.1 Executive Summary

#### 2.1.1 Objective

The medical scheme must submit sufficient information relating to its intention to register a new benefit option or to restructure any of its existing registered option(s).

This must include, amongst other things, the following minimum information:

- A brief description of the existing benefit options.
- A brief description of the new/restructured option(s); indicating what the preferred outcome (main objective/purpose) is of the new/restructured option(s) (i.e. the gap it intended filling in the scheme’s current options structure).
- A summary of why the scheme needs the new/restructured option(s).
- A comparison of the new/restructured option(s) with the current option(s); the scheme should also indicate why the new/restructured option(s) will be attractive to the market/members (i.e. market comparison).
- The new/restructured option(s) must comply with the provisions of Section 33 of the Medical Schemes Act.

In introducing a new benefit option, there may be changes within existing options that may alter the current solvency and even liquidity state of the scheme. Such factors or changes will need to be taken into account in the design, marketing and implementation of the benefit option.

The scheme will therefore have to outline where possible, all those factors including those mentioned above and the overall effect on the reserves of the scheme. Further, the resultant changes may negatively impact on the existing options. In that case, a synopsis of how the scheme will address the issue in evaluating the entire business plan/ application for registration of such benefit option(s) must be included.

### 2.2. Medical Scheme Summary

#### 2.2.1 Background

The scheme should provide a brief history of its operations, which should include at least the following information:

- 1) Name and registration date of the scheme.
- 2) The number and names of benefit options currently offered by the scheme.

## **Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

- 3) A brief description of the current options (objective of each individual option) as well as the target market for every option (e.g. low cost).
- 4) Summary of the membership profile per option for example:
  - Number of members.
  - Number of beneficiaries.
  - Average age of beneficiaries.
  - Pensioner ratio (65+ years).
  - Number of chronic patients.
  - Membership mix or different income bands.
  - Family size.
- 5) Developments within the scheme over the past few years (i.e. previous amalgamations).
- 6) Name of participating employer groups (only major groups for open schemes).
- 7) Name of administrator (only for third party administered schemes), including organogram of the administrator and its related parties.
- 8) Name of managed care provider(s) and services delivered, including an organogram of the managed care provider(s) and its related parties.
- 9) Names and relationships with all related parties of the scheme, including an organogram where applicable.
- 10) A full list of all the guarantees that the scheme has in place.

### **2.3. Strategy and implementation**

#### **2.3.1 SWOT analysis**

##### **2.3.1.1 Strengths and opportunities**

The scheme must give a brief overview of factors considered strengths and those being opportunities, as well as the reasons why the scheme considers these factors as such, and in what way such factors will assist the scheme to perform satisfactorily.

Possible strength factors could include but are not limited to the following:

- A competitive product offering, including the reasons for the scheme being competitive.
- Effective risk management (e.g. capitation arrangements with managed care networks).
- Quick hassle free claims turnaround as a result of type of system utilised; thus pleased members.
- Reduced administration expenditure per beneficiary, compared to the industry average.
- Improved age profile as a result of new options or better marketing; thus lower claims ratio compared to industry average.
- Stable risk pool due to younger, healthier members.
- Good investment strategy.

Possible opportunity factors could include but are not limited to the following:

- Member communication.
- Good risk profile member growth.
- Compulsory membership.
- Advertising / branding.

The above factors merely serve as an example of some of the strengths and opportunities that the scheme faces. Each scheme's circumstances will be different and schemes should not feel obliged to concentrate on or limit their analysis to only the factors mentioned above.

##### **2.3.1.2 Weaknesses and threats**

Similarly, an overview of factors considered being weaknesses and threats to the scheme. The scheme should also indicate how it plans to deal with those threats and weaknesses (i.e. risk mitigation plan).

Factors that could be a threat or even a weakness could include but are not limited the following:

- Existence of competitive schemes and the resulting loss of membership.

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

- Poor risk profile due to higher age profile of members.
- Higher than average claims pattern due to higher pensioner ratio.
- Dissatisfied members due to late claims processing and payments.
- Failure to attract sufficient members to increase the size of the risk pool.
- Spiralling costs of medication and private hospital costs; thus threatening the solvency and viability of the scheme.
- Potential/looming retrenchments in the industry where most of the members of the scheme operate (economic factors).
- Threat of HIV/Aids and other chronic diseases.
- Fraud and corruption.
- Poor returns on investment.
- Quality of management information.

The above factors merely serve as an example of what could affect the sustainability of a medical scheme. Each scheme's circumstances will be different and schemes should not feel obliged to concentrate on or limit their analysis to only the factors mentioned above.

### 2.4 Benefit options

#### 2.4.1 Benefit design

The scheme should provide a detailed description of the option(s) as well as the main objective/purpose for the registration of the new/restructured option(s).

A summary of the membership demographic profile of the option should be provided: i.e. average age, family size, pensioner ratio (defined as 65 years and older), number of chronic patients, etc.

The scheme should also include the rules of the new/restructured option(s).

The following table is an example of how scheme options can be summarized:

Name	Option A	Option B	New Option C	Restructured Option D
Type	Traditional – Fee for service	New generation – negotiated fee for service	Capitated	Capitated - low cost
Income bands (per rules or per target group/market)	< R 1000 R 1 000 – R3 000 R3 001 – R5 000 > R5 000	No income bands	< R4 000 > R4 000	< R2 500 > R2 500
Average Contributions - per member per month	R3 000 per member per month	R2 200 per member per month	R1 100 per member per month	R500 per member per month
- per beneficiary per month	R2 000 per beneficiary per month	R1 100 per beneficiary per month	R650 per beneficiary per month	R250 per beneficiary per month
Average family size	2.7	2.5	2.8	2.8
In-hospital benefits (overall limits & rate) - PMB	Unlimited	Unlimited	Unlimited	Unlimited

**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

Name	Option A	Option B	New Option C	Restructured Option D
- Non PMB	Unlimited	Unlimited	R500 000 per family per annum	R200 000 per family per annum
Out-hospital benefits (overall limits & rate) - PMB -Non PMB	Unlimited Limited to 200% of NRPL	Unlimited Limited to NRPL	Unlimited Unlimited capitated	Unlimited None
Personal Medical Savings Accounts	N/A	Compulsory 25.0%	Compulsory 10.0%	N/A
Average age	27.4	38.6	31.9	29.6
Pensioner ratio	2.9%	16.4%	6.8%	3.3%
No. of chronic beneficiaries	35.1%	23.2%	7.6%	3.4%

For restructured options, the scheme should illustrate exactly how the options will be restructured and the cost savings per discipline that the scheme will have as a result of the restructuring.

The following table is an example of an illustration of how a scheme proposes to restructure its options:

Year 1	Year 2
Option A	Option A
Option B – Network A	Option B - Primecure & Carecross
Option C – Network B	
Option D – Network C	Option C – Medicross
Option E – Network D	Option D – BIPA & Faranani
Option F – Network E	
Option G	Option E

The table below illustrates the cost saving for the scheme, by introducing co-payments to members; hence shifting a portion of the benefit expenditure to the members:

Benefit	Co-payment introduced	Average visits/consultations per month	Total co-payments per month
Co-payment for first night in hospital	R250	150	R37 500
Co-payment for day admissions in hospital	R100	12	R1 200
Co-payment for specialists consultation	R30	4 500	R135 000
<b>Total decrease in claims per month</b>			<b>R173 700</b>
Total claims per month			R6 948 000
Percentage cost saving			2.5%

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

### 2.4.2 Analysis of benefit structures of the existing options as well as the new/restructured options

The scheme should perform a detailed comparison between the benefit design of the existing options and the new/restructured option(s).

Existing Option A	Existing Option B	New Option C	Restructured Option D
<ul style="list-style-type: none"> <li>No overall hospital limit</li> <li>200% of NRPL</li> <li>sub limits applicable</li> </ul>	<ul style="list-style-type: none"> <li>No overall hospital limit</li> <li>100% of NRPL</li> <li>sub limits applicable</li> </ul>	<ul style="list-style-type: none"> <li>R500 000 overall hospital limit per family</li> <li>100% NRPL within a network hospitals</li> <li>R500 deductible is payable for certain procedures</li> </ul>	<ul style="list-style-type: none"> <li>R200 000 overall hospital limit per family</li> <li>100% NRPL within a network hospitals</li> <li>sub limits applicable</li> </ul>
No Threshold	Threshold: M = R5 300 AD = R3 800 CD = R1 700	No Threshold	No Threshold
General practitioners - Unlimited	General practitioners – Limited to 20 visits per family	General practitioners – limited to network of doctors	General practitioners – R600 per beneficiary
Specialist services - Unlimited	Specialist services – Limit of R50 000 per family	Specialist services - limited to network of doctors	Specialist services – No benefit
Surgical procedures – limit of R20 000 per family	Surgical procedures – No benefit	Surgical procedures – limit of 1 procedure per dependant at network hospital	Surgical procedures – No benefit

M = Member

AD = Adult Dependent

CD = Child Dependent

## 2.5 Market Analysis

### 2.5.1 Membership/ Target market strategy

The scheme will have to project the proposed membership per new/restructured option(s). The scheme should also indicate who is targeted with the new/restructured option(s).

The scheme should submit at least the following information per option (for current and new/restructured option(s)):

- A detailed marketing strategy.
- Forecast in terms of membership growth, including reasonability testing.
- Detailed demographic profile of the current and projected beneficiaries (i.e. average age and pensioner ratio (65+ years)).
- Geographical area of the current and projected members and beneficiaries, if applicable.
- Current and projected average family size for the new/restructured options, compared to the existing options.
- If the contribution tables differentiate between income bands, the scheme should indicate the number of members per income band. If the scheme's contribution tables do not provide for income bands, an indication of the salary income bands of the proposed target market.
- Illustrate the impact of the risk profile of the new members on the existing membership and the scheme's solvency level.
- Probability of movement of members between options, and the impact thereof on the self-sustainability of the options (i.e. buy ups and buy downs).
- The assumed movement of members between options.

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

- Methods to ensure that actual experience reflects the expected movements assumed in the point above, as well as the mitigating options identified by the scheme to address the adverse movement of members.
- Customer needs analysis.
- The scheme should provide any letter(s) of intent by prospective employers, if applicable.
- The scheme's communication strategy (i.e. road shows, pamphlets, advertising, etc.).

It should be noted that the recommended minimum number of members per option is 2 500 principal members which should be reached within 3 months.

The table below depicts the scheme's membership mix after the new option(s) has been introduced/ restructured.

Membership Mix	Average members	% of average members	Average beneficiaries	% of average beneficiaries
Option A < R 1000 R1 0000 – R3 000 R 3 0001 – R5 000 > R 5000				
Option B (no income bands)				
Option C < R4 000 > R4 000				
Option D <R2 500 >R2 500				
<b>Total scheme</b>				

### 2.5.2 Market Comparison

- Comparable benefits i.e. similar offerings by competitors.
- Range of options (i.e. number of options).
- Differentiation in respect of level of benefits:
  - Broad categories (in-hospital/chronic/out of hospital).
  - Overall limit range.
  - Limit on day-to-day benefits.
  - Limit on non-PMB chronic benefits.
  - Network/Capitated.
- Differentiation in respect of structure of benefits:
  - Traditional.
  - New generation.
  - Network.
  - Contributions.
- Comparison of contributions.

The following table serves merely as an example and should be adjusted to be relevant for the new/restructured option(s), compared to the scheme's peers' options:



**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

<b>Name</b>	<b>New/restructured Option C</b>	<b>Medical scheme Peer A Option 1</b>	<b>Medical scheme Peer B Option 5</b>
Type	Traditional – Fee for service	New generation – negotiated fee for service	Traditional – Fee for service
Income bands	< R1 000 R1 001 – R3 000 R3 001 – R5 000 > R5 000	No income bands	< R4 000 > R4 000
Average Contributions	<ul style="list-style-type: none"> <li>• R3 000 per member per month</li> <li>• R1 000 per beneficiary per month</li> </ul>	<ul style="list-style-type: none"> <li>• R2 500 per member per month</li> <li>• R2 200 per beneficiary per month</li> </ul>	<ul style="list-style-type: none"> <li>• R3 100 per member per month</li> <li>• R1 300 per beneficiary per month</li> </ul>
In-hospital benefits (overall limits & rate)	Unlimited	Unlimited	R2 000 000 per family per annum
Out-hospital benefits (overall limits & rate)	Unlimited	Limited to NRPL	Limited to 200% of NRPL
Chronic conditions	Formulary PMB	PMB	Formulary PMB plus 8 other chronic conditions limited to R10 000 per family.
Personal Medical Savings Accounts	N/A	15% of total contributions	20% of total contributions

## **2.6 Pricing Strategy**

### **2.6.1 Contributions**

The scheme should provide detailed contribution tables per option as well as the underlying assumptions for the pricing of the contributions.

The following table depicts the contribution structure of income based option(s):

#### **Option C:**

<b>Income bands</b>	<b>Member</b>	<b>Adult dependant</b>	<b>Child dependant</b>
R0 – R1 000			
R0 – R1 000 (savings)			
R1 001 – R3 000			
R1 001 – R3 000 (savings)			
R3 001 – R5 000			
R3 001 – R5 000 (savings)			
R5 001 plus			
R5 001 plus (savings)			

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

The following table depicts the contribution table for an option, which is not income based:

### Option D:

	Member	Adult dependent	Child dependant
Option 2			
Option 2 (savings)			

It is very important to note the basis/underlying assumptions for arriving at the monthly contribution rate charged. The breakdown of the monthly contribution should be on the basis of per member / per beneficiary per month.

The following tables depict the minimum information to be disclosed:

Description	Option C			Option D		
	pmpm	pbpm	% of GCI	pmpm	pbpm	% of GCI
Risk portion – healthcare related						
Risk portion – non-healthcare related						
Savings portion						
Contribution to reserves/investment income						
<b>Total proposed premium per month</b>						

pmpm= per member per month  
 pbpm= per beneficiary per month  
 GCI = Gross Contribution Income

The assumptions to the above figures and calculations should also be provided per benefit option, together with motivation for these assumptions. The following are a few examples of assumptions to be documented:

- Description of data used.
- Price inflation.
- Age adjustments.
- Benefit changes.
- Utilisation adjustments.
- Non-healthcare expenditure.
- Investment return.
- Reserve loading.
- Demographic profile of members:
  - Average age.
  - Pensioner ratio (65+ years).
  - Average family size per option.
  - Chronic profile.
  - Income profile.
- Buy-downs/ups.
- Subsidy (if any) assumptions and the impact on the proposed contributions table.

The proposed new contribution tables should also be compared to the contribution tables of the existing options. The scheme should indicate the probability of any risk of buy-downs by members to the lower cost options. The scheme should further indicate how this movement of members will impact on the overall performance of the scheme.

For restructured options the scheme should compare the new proposed contribution table with the previous contribution table (before restructuring). Detailed reasons should be listed for the difference in the contribution tables.

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

This merely serves as a guide and is not in anyway exhaustive of the assumptions that may be used. A detailed explanation of both the assumptions, the basis thereof and the impact these will have on the financial position need to be submitted.

### 2.6.2 Affordability of contributions

Based on the fact that an option would be targeted at a specific income group, the scheme should further comment on the affordability of the new option in relation to the household income (e.g. 22.5% of a member's household income (monthly) will go towards medical aid contributions). The scheme must also give an indication of how many members receive employer subsidies.

	Option C		Option D	
		% of salary		% of salary
Contribution per member per month	<b>R400</b>		<b>R800</b>	
Salary bands	R1 000	40.0%	R 8 000	10.0%
	R3 000	13.3%	R10 000	8.0%
	R5 000 +	8.0%	R12 000 +	6.6%
Contribution per beneficiary per month	<b>R300</b>		<b>R600</b>	
Salary bands	R1 000	30.0%	R 8 000	7.5%
	R3 000	10.0%	R10 000	6.0%
	R5 000 +	6.0%	R12 000 +	5.0%

### 2.6.3 Benefits

The projected claims costs for each option should be listed in the business plan on the basis of per member/beneficiary per month. Detailed calculations and assumptions on which the benefits are based should be provided.

The following is an example of the minimum information to be disclosed:

Pricing of contribution	Option C			Option D		
	Year Start	pmpm	pbpm	% of RCI	pmpm	pbpm
In-hospital benefits						
Chronic benefits						
MRI & CT scans						
Oncology						
Internal Prosthesis						
Dialysis						
Optical						
Dentistry						
Radiology						
Pathology						
GP's & Specialists						
ATB						
Threshold benefits						
Capitated benefits						
- PMB						
- Non-PMB						
<b>Total benefit</b>						

pmpm=per member per month  
pbpm=per beneficiary per month  
GCI = Gross Contribution Income

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

In addition, the scheme should also include a detailed list of benefit reduction/enhancements projected per discipline. This analysis should be done on a per member per month/per beneficiary per month basis and as a percentage of previous benefits offered.

Where applicable, the scheme should also indicate the level of co-payments by members. The co-payments on the new/restructured option should be compared with the co-payment of the existing options/previous option before restructuring.

Where a scheme enters into any capitation arrangements, the scheme should submit a copy of the proposed contract, as well as a detailed list of all services covered in the proposed agreement. The capitation fee paid should also be justified.

For restructured options a detailed comparison needs to be done between the new restructured option and the previous option before restructuring, for example:

Benefit	New restructured option	Previous option before restructuring
Day to day/ MSA / Above threshold benefits	None	<ul style="list-style-type: none"> <li>• Day to day benefits</li> <li>• Savings (MSA)</li> <li>• Above Threshold Benefits (ATB)</li> </ul>
Chronic	<ul style="list-style-type: none"> <li>• Non PMB limits: Per beneficiary = R4 800 Per family = R9 600</li> <li>• Levy = R25 per script</li> <li>• Non DSP - 20% co-payment</li> </ul>	<ul style="list-style-type: none"> <li>• Non PMB limits: M0 = R4 300 M1+ = R8 600</li> <li>• Co-payment = 10% (DSP)</li> <li>• Non DSP – Paid from Acute medication</li> </ul>
MRI and CT scans	Limit = 2 scans	No limit
Acute Medication	From MSA	<ul style="list-style-type: none"> <li>• 90% of scheme rate from day to day benefits thereafter from MSA</li> <li>• Limited to Day to day benefits/MSA</li> </ul>
Dentistry	<ul style="list-style-type: none"> <li>• 90% of scheme tariff</li> <li>• Limits: M0 = R1 000 M1 = R2 000 M2 = R2 500 M3 = R3 000</li> <li>• Orthodontic limit = R1 000 per family</li> </ul>	<ul style="list-style-type: none"> <li>• Hospital – first R1 000 from Day to day benefits/MSA, thereafter from MMB</li> <li>• Out-of-hospital – from day to day benefits/MSA</li> <li>• Overall limit = R12 500 per beneficiary</li> </ul>
External Prosthesis	<ul style="list-style-type: none"> <li>• 80% of cost</li> <li>• Limit = R5 000 for hearing aids</li> </ul>	<ul style="list-style-type: none"> <li>• day to day benefits/MSA</li> <li>• Limit = R12 000 per family</li> <li>• Limit = R8 000 for hearing aids</li> </ul>

## Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option

### 2.6.4 Non-healthcare expenditure

The scheme should perform a detailed analysis of the non-healthcare expenditure, expressed as a percentage of risk contribution per member per month / per beneficiary per month.

Total non-healthcare expenditure	Option C			Option D		
	pmpm	pbpm	% of RCI	pmpm	pbpm	% of RCI
Administration expenditure						
- Administration fees						
- Other administration expenditure						
Managed care: management services						
Broker fees						
Commercial reinsurance						
Impairment losses						
<b>Total</b>						

pmpm = per member per month

pbpm – per beneficiary per month

RCI – Risk Contribution Income

Details of the other administration costs should also be specified. If administration costs exceed 10% of contributions, an explanation should be provided.

The scheme should also provide a list of managed care providers it has contracts with, a description of the services to be provided together with copies of the contracts.

### 2.6.5 Reserve building

The scheme should indicate the extent to which the new/restructured option(s) will contribute to reserve building. Details of the scheme's reserving policy should also be provided.

The submission should also include sensitivity analyses illustrating the impact on the scheme's reserves. The following are examples of such sensitivity analyses:

- The impact of different utilisation patterns on the projected solvency levels.
- The impact of different risk profiles of members on the projected solvency levels.
- Increase in the proportion of lower income members joining the option.
- The impact of different membership targets on the projected solvency levels.
- The impact of buy-downs on the projected solvency.

The above-mentioned analysis could be summarized as follows:

Scenario	% change in insured contributions required to sustain reserves	% change in the end-period reserves if contributions are unchanged
A		
B		
C		
D		

A break-even analysis illustrating the minimum required income to cover all claims and non-healthcare costs, and all assumptions used for the year on year increases should be included.

## **Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

### **2.7 Risk Management**

Risk management is a key component of scheme management. A clear policy on how the scheme plans to minimise its exposure to risk can take countless forms that could include any of the following:

- Risk transfer arrangements with managed health care providers where an element of risk is transferred to the risk provider or is shared between the scheme and the provider.
- Capping of claims payable to contracted providers in return for unlimited services to members, thus reducing exposure to high inherent claims risk.
- For schemes that do not have large membership, reinsurance can afford them an effective vehicle to manage and contain risk. It should be noted that it is the responsibility of the Board of Trustees to consider the need for such reinsurance and to comply with Section 20(3) of the Act, in this regard. The scheme can also refer to the relevant Guideline issued for more information on the submission of reinsurance contracts to the Office.

The scheme should provide full details on risk management tools currently in place as well as those risk management tools to be implemented and an evaluation of the effectiveness thereof. The scheme should also provide copies of all agreements. Any proposed risk sharing arrangements should be supported by appropriate reasons for implementation thereof (i.e. needs analysis).

### **2.8 Financial Plan**

The scheme should provide a historical summary regarding the financial soundness of its options.

Furthermore, the scheme should provide financial projections based on the introduction of the new/restructured benefit option(s). The projections should cover a period of at least two full calendar years.

Projections shall comprise of at least the following information (this should be submitted electronically as well):

- a) A detailed consolidated statement of comprehensive income per month. Please refer to Annexure A.
- b) A detailed statement of comprehensive income per benefit option per month. Please refer to Annexure A.
- c) A detailed consolidated year to date statement of comprehensive income. Please refer to Annexure B.
- d) Projected reserve level and solvency ratio.

### **2.9 Independent Review**

The scheme may wish to seek the services of an expert to evaluate proposed changes, especially if they involve redesigning/restructuring of benefit options. The evaluation sought must be addressed to the Board of Trustees of the scheme.

The person performing the review need not be an actuary but should have appropriate skills in statistics, health economics and actuarial science etc.

The evaluation shall, at minimum, report on the appropriateness and adequacy of the following:

- a) Contributions, taking into account the level of benefits offered by the scheme.
- b) The level of contribution to be utilised towards reserve building.
- c) The level of non - healthcare expenditure.
- d) Brokerage commission.
- e) Overall risks faced by the scheme and the extent to which the scheme is vulnerable or covered against these risks.
- f) Sensitivity analysis.
- g) The effect on existing options (i.e. buy down/up to other options).

**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

**3. Annexures to the business plan**

**3.1 Annexure A - specimen monthly statement of comprehensive income (consolidated and per option)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Net contribution income</b>													
<b>Relevant healthcare expenditure</b>													
Net claims incurred													
Claims incurred													
Third party claims recoveries													
Net income/expense on risk transfer arrangements													
Risk transfer arrangement fees/ premiums paid													
Recoveries from risk transfer arrangements													
Profit/ (loss) share arising from risk transfer arrangements													
<hr/>													
<b>Gross healthcare result</b>													
Net income/ (expense) on commercial reinsurance													
Commercial reinsurance premiums paid													
Recoveries from commercial reinsurance													
Profit/ (loss) share arising from commercial reinsurance													
Managed care: Management services													
Broker service fees													
Administration expenses													
Net impairment losses on healthcare receivables													
<hr/>													
<b>Net healthcare result</b>													
<b>Other income</b>													
Investment income													
Income from use of own facilities by external parties													
Grants													
Sundry Income													

**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

**Other expenditure**

Asset management fees  
Cost incurred in provision of own facilities to external parties  
Interest paid on savings accounts  
Sundry expenses

--

**Net surplus/ (deficit ) for the year**

**Other comprehensive income**

Fair value adjustment on available for sale investments  
Reclassification adjustment\*  
Land and buildings revaluation

--

**Total comprehensive income for the year**

--

\* The reclassification adjustment relates to gain/ loss on sale of available - for sale investments which is taken to the income statement within "investment income".

Projected accumulated funds  
Projected solvency ratio

Number of principal members  
Number of beneficiaries  
Pensioner ratio (65 + years)  
Average age per beneficiary



**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

**3.2 Annexure B - specimen year-to-date statement of comprehensive income**

	Year 1	Year 2	Year 3
<b>Net contribution income</b>			
<b>Relevant healthcare expenditure</b>			
Net claims incurred			
Claims incurred			
Third party claims recoveries			
Net income/expense on risk transfer arrangements			
Risk transfer arrangement fees/ premiums paid			
Recoveries from risk transfer arrangements			
Profit/ (loss) share arising from risk transfer arrangements			
<hr/>			
<b>Gross healthcare result</b>			
Net income/ (expense) on commercial reinsurance			
Commercial reinsurance premiums paid			
Recoveries from commercial reinsurance			
Profit/ (loss) share arising from commercial reinsurance			
Managed care: Management services			
Broker service fees			
Administration expenses			
Net impairment losses on healthcare receivables			
<hr/>			
<b>Net healthcare result</b>			
<b>Other income</b>			
Investment income			
Income from use of own facilities by external parties			
Grants			
Sundry Income			

**Guideline for the preparation of a business plan pursuant to an application for the registration of a new/restructured benefit option**

**Other expenditure**

Asset management fees  
Cost incurred in provision of own facilities to external parties  
Interest paid on savings accounts  
Sundry expenses

--

**Net surplus/ (deficit ) for the year**

**Other comprehensive income**

Fair value adjustment on available for sale investments  
Reclassification adjustment\*  
Land and buildings revaluation

--

**Total comprehensive income for the year**

--

\* The reclassification adjustment relates to gain/ loss on sale of available - for sale investments which is taken to the income statement within "investment income".

Projected accumulated funds  
Projected solvency ratio

Number of principal members  
Number of beneficiaries  
Pensioner ratio (65 + years)  
Average age per beneficiary