



Guideline for the preparation of a business plan pursuant to an application for an amalgamation of medical schemes as per Section 63 of the Medical Schemes Act 131 of 1998, as amended

# Guideline for the preparation of a business plan pursuant to an application for an amalgamation of medical schemes

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# Guideline for the preparation of a business plan pursuant to an application for an amalgamation of medical schemes

## 1 Introduction

Section 63(1) of the Medical Schemes Act 131 of 1998, as amended ("the Act") states:

"No transaction involving the amalgamation of the business of a medical scheme with any business of any other person (irrespective of whether that other person is or is not a medical scheme) or the transfer of any business from a medical scheme to any other medical scheme or the transfer of any business from any other person to a medical scheme, shall be of any force, unless such amalgamation or transfer is carried out in accordance with the provisions of this section."

Section 63(7) of the Act furthermore states:

"The Registrar shall not confirm the proposed exposition unless he or she is satisfied that the transaction concerned-

- a) Would not be detrimental to the interests of the majority of the beneficiaries of the medical scheme, or medical schemes concerned; and
- b) would not render any of the medical schemes concerned which will continue to exist if the proposed exposition is completed, unable to meet the requirements of this Act or to remain in a sound financial condition, or, in the case of a medical scheme which is not in the sound financial condition, to attain such a condition within a period of time deemed by the Registrar to be satisfactory."

A medical scheme or any other party should submit the following information to the Registrar in respect of any amalgamation or transfer of business:

- A copy of the exposition of the proposed transaction;
- A copy of every actuarial or other statement taken into account for the purpose of the proposed transaction;
- The particulars of any voting of its members in which the proposed transaction was considered.
- Any other agreements between the two amalgamating schemes e.g. Memorandum of understanding (MOU); and
- Any additional information as the Registrar may require.

In addition, the Registrar may require a medical scheme to comply with any of the following provisions regarding the proposed amalgamation:

- A report on the proposed transaction to be drawn up by an independent valuator or other competent person nominated by the Registrar at the expense of the scheme concerned;
- A copy of the exposition of the proposed transaction and of the report, if any, referred to in the previous bullet point to be forwarded by the parties concerned to every member and creditor of those medical schemes; and
- The publication of the proposed transactions of the parties concerned in a form approved by the Registrar in the Gazette and in such newspaper or newspapers as the Registrar may direct.

The purpose of this document is to guide and assist medical schemes in submitting the relevant information/business plans required for the process of amalgamations of medical schemes, and ensure that it is in line with the provisions of Section 63 of the Act.

Trustees must submit the relevant documentation timeously to the Office, in order to allow for the Registrar to review the exposition documents as submitted; and for the trustees to respond to any issues

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that may be raised, but also taking into account the 42 days requirement in terms of Sections 63(4) and 63(5).

## 2 Business plan format

### 2.1 Objective

The report<sup>1</sup> should describe in detail the reasons and objectives of the proposed amalgamation, as well as the main advantages and disadvantages for both schemes as a result of the proposed amalgamation. The scheme should also provide a summary of the impact of the amalgamation on the members of the different schemes.

### 2.2 Medical Scheme Summary

#### 2.2.1 Background information of all schemes to be amalgamated

The report should provide brief history/background information of all the amalgamating parties involved, which should include at least the following information:

- Name, type and registration date of the medical scheme(s);
- In the case of restricted medical schemes, the details of any participating employer groups, profession or industry;
- Name of administrator and accredited managed healthcare providers, including an organogram of the administrator/managed healthcare providers and its related parties;
- Disclosure of any interests that any board of trustee member may have in any of the parties mentioned above;
- Names and relationships of all related parties to the scheme, as well as the details of services delivered by these related parties to the medical scheme. The provision of an organogram might be necessary;
- Details regarding any penalties as well as the termination process of any current contracts;
- Developments within the schemes over the past few years (e.g. previous amalgamations);
- 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;
  - Family size; and
  - Racial classification.
- Membership mix on different income bands;
- A brief description of the current benefit options;
- A summary of the financial position of the schemes, including reserve levels before and after amalgamation at a scheme and member level; and
- A full list of guarantees that the scheme has in place.

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<sup>1</sup> Report in this context refers to the exposition document, all supporting documents and underlying agreements.

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### 2.2.2 Operational comparison

The scheme should submit the following operational comparison as well as the reasons for choosing the third parties of the amalgamated scheme (should there be different third parties for the individual schemes):

	Scheme A	Scheme B	Amalgamated scheme
Administrator			
Accredited managed healthcare service providers			
Risk transfer arrangements with non-managed healthcare organisations			
Actuarial services			
Distribution channels			
Investment managers			
Commercial reinsurance			
Auditors			

### 2.2.3 Details regarding the amalgamated scheme

General information of the amalgamated scheme should be included in the report, which includes at least the following information:

- The full name of the amalgamated scheme;
- The date on which the proposed amalgamation will be effective;
- The physical and postal address of the registered office of the amalgamated scheme;
- The full names, physical and postal addresses of the principal officer and Board of Trustees of the amalgamated scheme;
- The name and address of the entity who will administer the amalgamated scheme, including an organogram of the administrator and its related parties;
- The name and address of all accredited managed healthcare provider(s) of the amalgamated scheme, including an organogram of the managed care provider(s) and its related parties;
- The name and address of the auditors of the amalgamated scheme;
- Names and relationships of all related parties to the amalgamated scheme, as well as details regarding the delivery of any service by these related parties to the amalgamated scheme. The provision of an organogram might be necessary;
- The reasons for selecting a specific medical scheme(s) to amalgamate with i.e. demonstrable suitability;
- Summary of the membership profile, for example:
  - Number of members;
  - Number of beneficiaries;
  - Average age of beneficiaries;
  - Pensioner ratio (65+ years);
  - Number of chronic patients;
  - Family size; and
  - Racial classification.
- Details indicating how deterioration in any of the fundamentals of the scheme, such as ageing, member mix, number of chronic patients etc., will be managed in the amalgamated scheme;

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- Details regarding the registered rules of the amalgamated scheme;
- The mission and objectives of the amalgamated scheme;
- Details regarding the benefit options available to the members of the scheme which will transfer its assets; as well as details regarding any default option(s), should the member not choose a specific benefit option by the effective date of the amalgamation;
- Details regarding the personnel strategy of the scheme that will transfer its assets; and
- In addition, should the individual schemes which will amalgamate have different administrators than the amalgamated scheme, the scheme should clearly indicate to what extent the IT systems of the different administrators are compatible, to ensure a smooth transfer of data. The full details of the transfer of data should be provided; that is the manner in which the transfer will be dealt with both to the scheme and to the members.

### 2.3 Strategy and implementation

#### 2.3.1 SWOT analysis of the amalgamated scheme

##### 2.3.1.1 Strength and opportunities

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

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

- Financial stability due to larger risk pool;
- Economies of scale;
- Stable risk pool due to younger, healthier members;
- A competitive product offering which will give members a choice of benefit options;
- Reduced administration expenditure per member, compared to the industry average;
- Improved age profile; thus lower claims ratio compared to the industry average;
- Majority of amalgamating scheme members will experience a reduction in contributions. Where there is an increase in contributions, this will be offset by the amalgamated scheme providing additional benefits;
- The schemes have the same administrator, allowing for ease of a merger as well as providing synergies;
- The mapping of amalgamating scheme members will be easy, given that the amalgamated scheme offers a few similar options;
- Member communication/ education (distribution channels);
- Advertising / branding; and
- Stronger bargaining power due to bigger risk pool.

The factors listed above and throughout this report merely serve as an example of what could affect the amalgamated scheme. Each scheme's circumstances will be different and the above listed factors are therefore not exhaustive.

##### 2.3.1.2 Weaknesses and threats

Similarly, an overview of factors considered being weaknesses and threats to the amalgamated scheme should be provided. In such cases, the scheme should indicate how they plan to deal with those weaknesses and threats (i.e. mitigation plan).

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

- Poor risk pool as a result of a higher age profile for the combined membership;
- Membership loss due to the amalgamation;
- Dissatisfied members due to lack of communication/ education;
- Statutory regulations/ amendments;
- Threat of HIV/Aids and other chronic diseases; and
- Fraud and corruption.

The above factors merely serve as an example of what could affect the survival of a medical scheme. Each scheme's circumstances will be different therefore the above listed factors are not exhaustive.

### 2.4 Market analysis

#### 2.4.1 Membership movement

The report should include the membership movement projections from the scheme that will transfer its assets to the amalgamated scheme. In circumstances where the benefit design of the individual scheme(s) is not incorporated in the amalgamated scheme, the report should illustrate the restructuring, for example:

Before amalgamation – Scheme A				Before Amalgamation – Scheme B				After amalgamation			
	Number of members	Ave. age	Pens. ratio		Number of members	Ave. age	Pens. ratio		Number of members	Ave. age	Pens. ratio
Option A				Option 1				Option X			
Option B				Option 2				Option Y			
Option C											
Option D				Option 3				Option Z			

Ave. age = Average Age

Pens. ratio = Pensioner ratio (65+ years)

Please note that the above table merely serves as an example and should be adjusted to be relevant to the amalgamation.

In addition, the scheme should submit at least the following information per option for the amalgamated scheme:

- Geographical area of the members, if applicable;
- Summary of the membership profile per option, for example:
  - Number of members;
  - Number of beneficiaries;
  - Racial classification;
  - Average age of beneficiaries;
    - Pensioner ratio (65+ years);
    - Number of chronic patients; and
    - Family size.

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- If the contribution tables differentiate between income bands, the scheme should indicate the number of members per income band;
- The assumed movement of members between options from old schemes into the amalgamated scheme;
- Sensitivity of movement of members between options, and the impact thereof on the self-sustainability of the options;
- Methods to ensure that actual experience reflects the expected movements assumed in the point above, including the mitigating strategies identified by the scheme to address the adverse movement of members; and
- Detailed communication strategy to assist members with the amalgamation as well as the call centre operations (especially where the schemes have different administrators).

The table below depicts the scheme's membership mix after amalgamation:

Membership mix Year Start	Average members	% of average members	Average beneficiaries	% of average beneficiaries
Option X				
R0 – R1 000				
R1 001 – R3 000				
R3 001 – R5 000				
R5 000 plus				
Option Y				
Option Z				
Total				

### 2.5 Contributions

#### 2.5.1 Current contribution tables

The contribution tables of the current individual schemes which will be amalgamated should be provided. The scheme should also indicate the extent of the savings contributions, if applicable.

For example:

Income category	Scheme A		
	Member	Adult dependant	Child dependant
Option A			
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 000 plus			
R5 000 plus (savings)			
Option B			
Option B (savings)			
Option C			

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Option D		
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Income category	Scheme B		
	Member	Adult dependant	Child dependant
Option 1			
R0 – R1 000			
R0 – R1 000 (savings)			
R1 001 – R3 000			
R3 001 – R5 000			
R3 001 – R5 000 (savings)			
R5 000 plus			
R5 000 plus (savings)			
Option 2			
Option 2 (savings)			
Option 3			

The contribution table for the amalgamated scheme should also be provided. For example:

Income category	Amalgamated scheme		
	Member	Adult dependant	Child dependant
Option X			
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 000 plus			
R5 000 plus (savings)			
Option Y			
Option Y (savings)			
Option Z			

In the case where contributions for the amalgamated scheme will be changed, it is very important to note the basis for arriving at the monthly contribution rate charged. The breakdown of the monthly contribution should be on a per member/beneficiary per month basis. The submission should also include an impact analysis of the change in contribution in relation to member movements across options and how that will be mitigated.

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The following table depicts the minimum information to be disclosed:

Description	Option X			Option Y			Option Z		
	pmpm	pbpm	% of GC	pmpm	pbpm	% of GC	pmpm	pbpm	% of GC
Risk portion – healthcare related									
Risk portion – non-healthcare related									
Savings portion									
Contribution to reserves/investment income									
Total proposed premium per month									

pmpm = per member per month  
 pbpm = per beneficiary per month  
 GC = Gross Contribution

The assumptions to the above figures should be provided per benefit option, together with the 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;
- Accredited managed healthcare services;
- Non-healthcare expenditure;
- Investment return;
- Reserve loading;
- Demographic profile of members:
  - Average age;
  - Pensioner ratio (65+ years);
  - Average family size per option;
  - Chronic profile; and
  - Income profile.
- Buy-downs (ups); and
- Subsidy (if any) assumptions and the impact on the proposed contributions table.

As mentioned above the table and assumptions merely serve as a guide and is not in any way exhaustive of the assumptions that may be used. They are however considered the minimum information required. A detailed explanation of both the assumptions and the basis or impact these will have on the financial position must be submitted; this to be supported further by the actual figures and calculations.

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### 2.5.2 Contribution comparison

The contribution tables for the amalgamated scheme should be compared with the current individual schemes' contribution tables to establish the increase in contributions for all members.

The following table depicts a comparison of average contributions level (taking member profiles into account):

Benefit option name	Amalgamated scheme	Old Scheme A		Old Scheme B	
	Average contribution	Average contribution	% increase	Average contribution	% increase
Option X					
- Previous Option A					
- Previous Option 1					
Option Y					
- Previous Option B					
- Previous Option C					
- Previous Option 2					
Option Z					
- Previous Option D					
- Previous Option 3					

## 2.6 Benefit options

### 2.6.1 Current benefit structures

A detailed description of the benefit options (benefit structure) before the amalgamation, in respect of the individual schemes which will be amalgamated, should be submitted.

Please note that the table below merely serves as an example and should be adjusted to be relevant to the schemes to be amalgamated:

	Scheme A				Scheme B		
	Option A	Option B	Option C	Option D	Option 1	Option 2	Option 3
Type	Traditional – Fee for service	New generation – negotiated fee for service	New generation – fee for service	Capitated – low cost option	Traditional – Fee for service	New generation – negotiated fee for service	Capitated – low cost option
In-hospital benefits (overall limits & rate) - PMB	Unlimited Rate: 300% of scheme rate	Unlimited Rate: 150% of scheme rate	Unlimited R1m limited per family per annum Rate: 100% of scheme rate	Unlimited R500 000 per family per annum Rate: 100% of	Unlimited Rate: 300% of scheme rate	Unlimited Rate: 150% of scheme rate	Unlimited R750 000 per family per annum Rate: 100% of scheme rate

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	Scheme A				Scheme B		
	Option A	Option B	Option C	Option D	Option 1	Option 2	Option 3
- Non-PMB				scheme rate			
Out-hospital benefits (overall limits & rate)	Unlimited Limited to 200% of scheme rate	Unlimited Limited to 150% of scheme rate	Unlimited From savings only	Unlimited Unlimited capitated	Unlimited Limited to 200% of scheme rate	Unlimited Limited to 150% of scheme rate	Unlimited Unlimited capitated
- PMB - Non-PMB							
Chronic conditions	PMB + R50 000 per family per annum	Formulary PMB + R20 000 per family per annum	Formulary PMB	Formulary PMB	PMB + R50 000 per family per annum	Formulary PMB + R20 000 per family per annum	Formulary PMB – capitated
- PMB - Non-PMB							
Contributions	R3 000	R2 200	R1 100	R500	R2 500	R1 800	R1 000
- pmpm	R2 000	R1 100	R650	R250	R1 300	R900	R450
- pbpm							
Income bands per current membership	< R 1000 R 1 000 – R3 000 R3 001 – R5 000 > R5 000	No income bands	No income bands	No income bands	< R1000 R1 000 – R3 000 R3 001 – R5 000 >R5 000	No income bands	No income bands
Personal Medical Savings Accounts (PMSA)	No PMSA	15% of total contributions	20% of total contributions	No PMSA	No PMSA	15% of total contributions	25% of total contributions
Average family size	3.4	2.7	2.1	2.6	2.6	2.3	2.1
Average age	34.8 years	32.5 years	28.0 years	29.3 years	31.8 years	29.3 years	28.1 years
Ave. pensioner ratio (65+ yrs)	7.4%	3.2%	2.2%	1.9%	8.4%	2.7%	3.4%

### 2.6.2 Benefit design of amalgamated scheme

A detailed description of the benefit options (benefit structure) of the amalgamated scheme should be provided.

For example:

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Option X	Option Y	Option Z
<ul style="list-style-type: none"> <li>• No overall hospital limit</li> <li>• 200% of scheme rate</li> <li>• sub limits applicable</li> </ul>	<ul style="list-style-type: none"> <li>• No overall hospital limit</li> <li>• 150% of scheme rate</li> <li>• sub limits applicable</li> </ul>	<ul style="list-style-type: none"> <li>• R750 000 overall hospital limit per family</li> <li>• 100% scheme rate within a network hospitals</li> <li>• R750 deductible is payable for certain procedures.</li> </ul>
No Threshold	Threshold: B = R5 300 F = R8 000	No Threshold
Chronic conditions: PMB + R50 000 per family per annum	Chronic conditions: Formulary PMB + R20 000 per family per annum.	Chronic conditions: Formulary PMB – capitated
Personal medical savings account: N/A	Personal medical savings account: 15% of GC	Personal medical savings account: 25% of GC
General practitioners - Unlimited	General practitioners – Limited to 20 visits per beneficiary	General practitioners – limited to network of doctors
Specialist services - Unlimited	Specialist services – Limit of R50 000 per family	Specialist services - limited to network of doctors
Surgical procedures – limit of R20 000 per family	Surgical procedures – No benefit	Surgical procedures – limit of 1 procedure per dependent at network hospital

B = Beneficiary  
F = Family  
GC = Gross Contribution

Please note that the above table merely serves as an example and should be adjusted to be relevant to the amalgamated scheme.

Should the benefit structure of the amalgamated scheme change totally from the benefit options that were offered in the individual schemes which will amalgamate, the projected claims costs for each option on a per member / beneficiary per month basis, as well as a percentage of risk contribution income, should be submitted. Furthermore, the scheme should refer to the guideline for the preparation of a business plan pursuant to an application for a new/restructured option as published on the Council for Medical Schemes website to ensure that all relevant factors are considered.

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

For example:

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Pricing of contribution	Option X			Option Y			Option Z		
	pmpm	pbpm	% of RCI	pmpm	pbpm	% of RCI	pmpm	pbpm	% of RCI
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									
Total benefit									

pmpm= per member per month  
 pbpm = per beneficiary per month  
 RCI = Risk Contribution Income

The level of any co-payments should also be disclosed.

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.

### 2.6.3 Benefit comparison should all options not be incorporated into the amalgamated scheme

A detailed benefit comparison and gap analysis should be performed, between the options that were available to members on the individual schemes which will amalgamate, and the benefit options to be offered to members of the amalgamated scheme. The comparison will be based on options that are the closest fit to the amalgamating option when taking into consideration the benefits and affordability.

For example:

Description	Scheme A - Option A	Amalgamated scheme - Option X	Difference
In-hospital benefits			
Rate of Cover	100% of scheme rate	150% of scheme rate	Extended benefit
Overall annual limit	R1 000 000 per family	Unlimited	Extended benefit
Deductible	No	No	No difference

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Pathology & Radiology	2 sonars per pregnancy, no limit on special radiology	150% of scheme rate paid from savings thereafter unlimited from ATB	Decrease in benefit
Description	Scheme A – Option A	Amalgamated scheme – Option X	Difference
Above Threshold	No	Yes	Increase in benefit
Savings	20% of total contributions	15% of total contributions	Decrease in benefit
Out-of-hospital benefits			
General practitioners	100% of scheme rate paid from medical savings	Limited to 20 benefits per beneficiary	Increase in benefit
Specialist visits	100% of scheme rate paid from savings	Limited to R50 000 per family	Increase in benefit
Surgical procedures	Limited to amount in savings	No benefit	Decrease in benefit

Please note that the above table merely serves as an example and should be adjusted to be relevant to the amalgamation.

### 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 and on per member / beneficiary per month basis for all the individual schemes which will amalgamate, as well as for the amalgamated scheme.

For example:

pmpm = per member per month

Total non-healthcare expenditure	Scheme A			Scheme B			Amalgamated Scheme		
	pmpm	pbpm	% of RCI	pmpm	pbpm	% of RCI	pmpm	pbpm	% of RCI
Administration expenditure									
- Administration fees									
- Other administration expenditure									
Broker fees									
Commercial reinsurance									
Impairment losses									
Total									

pbpm = per beneficiary per month  
RCI= Risk Contribution Income

The scheme should furthermore provide the full details of any non-healthcare cost savings or alternatively non-healthcare cost increases as a result of the amalgamation.

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### 2.6.5 Reserve building

Details of the amalgamated scheme's reserving policy should be provided.

The submission should also include sensitivity analyses illustrating for example the impact of buy-downs (ups) on the scheme's reserves.

The above-mentioned analysis could be summarised as follow:

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

A comparison of the effect that the amalgamation will have on the reserve levels per member before and after the amalgamation should also be provided.

For example:

	Before amalgamation 200x	After amalgamation 200x	Variance
XX Medical Scheme			
XXX Medical Aid Society			

### 2.7 Risk management

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

- Risk transfer arrangements with managed healthcare providers where an element of risk is transferred to the provider or is shared between the amalgamated 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;
- Copies of accredited managed healthcare contracts and risk transfer arrangements; and
- 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 and appropriateness for such reinsurance and to ensure compliance 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 applicant should provide full details of possible risk management tools to be implemented. Any proposed risk sharing arrangements should be supported by appropriate reasons for the implementation thereof (i.e. need analysis).

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## 2.8 Governance

Every medical scheme shall have a Board of Trustees consisting of persons who are fit and proper to manage the business of the medical scheme in accordance with the applicable laws and the rules of the scheme (as stipulated in Section 29(1) (a) of the Act).

In this regard, the scheme should provide inter alia the following information:

- Details of the composition of the individual and amalgamated schemes' Board of Trustees;
- Criteria used in selecting the board;
- Duties as well as terms of reference of the Board;
- Remuneration levels of the board;
- The period for which the Board of Trustees will serve in office; and
- Whether the trustees from both schemes will form part of the BOT of the amalgamated scheme.

## 2.9 Financial plan

The scheme should submit detailed projections for the amalgamated scheme on a consolidated level and on a per option level, for at least two full calendar years.

The financial projections for the amalgamated scheme should comprise of at least the following information (this should also be submitted electronically in an excel workbook as well):

- A detailed consolidated statement of comprehensive income per month. Please refer to Annexure A;
- A detailed statement of comprehensive income per benefit option per month. Please refer to Annexure A; and
- A detailed consolidated year to date statement of comprehensive income. Please refer to Annexure B.

## 2.10 Independent review

The Registrar may require a medical scheme to submit a report on the proposed transaction to be drawn up by an independent valuator or other competent person nominated by the Registrar at the expense of the scheme concerned.

The person performing the evaluation needs to be independent with all potential conflicts of interest fully disclosed to the trustees. Such disclosure must be attached as part of the evaluation.

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

The independent evaluation needs to provide an overall qualitative and quantitative evaluation of the amalgamation. The report should be provided in a manner and format consistent with the requirements of the Act. The information provided needs to be sufficient for decision-making purposes by the trustees and the Registrar.

The report should contain at least the following:

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- Details of the person who prepared the report (including qualification) and for whom it was prepared;
- Date of submission of the report;
- A declaration that the report was independent to the extent required by the Act;
- A description of the information reviewed;
- A general description of the amalgamation and the impact on the members of the individual schemes;
- Comments on the appropriateness of the amalgamation in respect of the following, based on the quantitative analysis:
  - Benefit structure of the amalgamated scheme;
  - Contribution table(s) of the amalgamated scheme.
- The report should conclude on whether the amalgamation will be in the interests of the majority of the beneficiaries of the medical scheme, or medical schemes concerned; and whether the amalgamated scheme will be in a financially sound position for a reasonable period after the amalgamation.

## Guideline for the preparation of a business plan pursuant to an application for an amalgamation of medical schemes

### 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
Risk contribution income													
Relevant healthcare expenditure													
Net claims incurred													
Risk claims incurred													
Third party claims recoveries													
Accredited managed healthcare services (no risk transfer)													
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													
Gross healthcare result													
Net income/ (expense) on commercial reinsurance													
Commercial reinsurance premiums paid													
Recoveries from commercial reinsurance													
Profit/ (loss) share arising from commercial reinsurance													
Broker service fees													
Administration expenses													
Net impairment losses on healthcare receivables													
Net healthcare result													

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Other income													
Investment income													
Income from use of own facilities by external parties													
Grants													
Sundry income													
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													
Projected accumulated funds													
Projected solvency ratio													
Number of principal members													
Number of beneficiaries													
Pensioner ratio (65 + years)													
Average age per beneficiary													

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

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

	Year 1	Year 2	Year 3
Risk contribution income			
Relevant healthcare expenditure			
Net claims incurred			
Risk claims incurred			
Third party claims recoveries			
Accredited managed healthcare (no risk transfer)			
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			
Gross healthcare result			
Net income/ (expense) on commercial reinsurance			
Commercial reinsurance premiums paid			
Recoveries from commercial reinsurance			
Profit/ (loss) share arising from commercial reinsurance			
Broker service fees			
Administration expenses			
Net impairment losses on healthcare receivables			
Net healthcare result			
Other income			
Investment income			
Income from use of own facilities by external parties			
Grants			
Sundry income			

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	Year 1	Year 2	Year 3
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)