Medical scheme consolidation a notable trend

As Bonitas Medical Fund awaits the approval of the Competition Commission regarding the proposed amalgamation with Nedgroup Medical Aid Scheme, Lee Callakoppen, principal officer of Bonitas Medical Fund says medical scheme consolidation is a notable trend.

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"It is a trend I believe will continue, if not accelerate. In fact in the past decade we have seen 28 amalgamations approved by the CMS and the Competition Commission," says Callakoppen.

"The trend towards amalgamations is not only for the sustainability of the medical scheme but for the benefit of members who 'own' the fund," he says

"This is especially in light of the proposed introduction of National Health Insurance (NHI) where smaller schemes will be unable to compete," Callakoppen adds.

Escalating healthcare inflation and costs, a declining and ageing membership, the impact of a global pandemic and a growing disease burden is impacting the not-for-profit medical scheme industry which is highly regulated have also impacted the country's private healthcare sector.

"Schemes with smaller risk pools are struggling to survive and experience more volatile claims. Amalgamation into a bigger scheme means cross subsidisation of costs," he says.

Financially sound condition

The Council for Medical Schemes (CMS) recommends that schemes which cannot compete on a sustainable price point should consider amalgamation partners.

"It is not only the call from CMS for schemes to join forces but also strict regulations around minimum solvency ratios and reserves, which are more difficult for smaller schemes to maintain," explains Callakoppen.

The Medical Schemes Act No 131 of 1998 requires that medical schemes, 'shall at all times maintain its business in a financially sound condition'. This means having sufficient assets for conducting its business, providing for liabilities and having the prescribed solvency requirements of 25%.

'It's a big ask for small schemes in this volatile and uncertain healthcare market,' he says.

The objective of a good solvency framework is to maintain financial stability, promote fair competition, ensure efficient use of capital and, more importantly, to provide early warning signs of potential failure.

"Amalgamation with larger schemes will mean stronger financial stability, a broader national footprint and better economies of scale to allow these schemes to negotiate more advantageous rates and improve provider networks.

"This translates into more value for members," he says.

From an investment of assets perspective, there is an opportunity for more effective management of asset allocation and diversification, potentially resulting in lower fees, higher service levels and better returns over the long term.

"There is no doubt that the future of healthcare is changing," says Callakoppen, "and it is up to healthcare providers and associated services to be nimble enough to pre-empt these changes and adapt accordingly."