PRESS RELEASE

Reference:	Health Squared
Contact person:	Customer Care Centre
Tel:	0861 123 267
Date:	26 August 2022

Press Release 9 of 2022: Health Squared members urged to wait for the regulator's concession

The Council for Medical Schemes (CMS) will oppose the liquidation application by Health Squared Medical Scheme. Health Squared Medical Scheme approached the High Court on 18 August 2022, in terms of Section 51 of the Medical Schemes Act (131 of 1998) (MSA) due for leave to apply for the voluntary winding up of the scheme in the interest of its members, as contemplated by Sections 51(5)(e) and 53. The winding-up application is intended to be submitted on 1 September 2022.

The CMS is on the tail end of discussions with seven medical schemes to consider options for Health Squared Medical Scheme members while ensuring their existing membership is not unduly disadvantaged. These medical schemes have more than 100 000 members with a solvency ratio above 25%. It is hoped that the schemes will be able to absorb the risk and dilute it with their demographics if the risk is shared equitably.

These discussions continue with due consideration to the urgency of the situation and that Health Squared members need to be onboarded by 1 September 2022. The CMS aims to conclude a concession that will allow Health Squared Medical Scheme members to join these schemes without the conditions of reinsurance and waiting periods to guarantee members' financial protection.

Whilst the CMS concludes discussions, Health Squared members are urged to avoid panic-inspired movements that might leave them worse off but instead wait on the announcement CMS is expected to make in due course. Health Squared members who join other schemes may not qualify to be part of the dispensation, should the migration concession be successful.

BACKGROUND

Health Squared Medical Scheme came to be on 1 January 2019 through the merger of Spectramed and Resolution Health. In approving the amalgamation, the CMS gave the scheme condition that sought to protect the interests of members of this scheme:

1. The scheme was required to consolidate benefit options by 1 January 2020 to increase the value of the guarantee provided in terms of section 33(3) of the MSA to a poor risk and demographic profile. The CMS instructed the scheme to go out on tender within six months to procure managed healthcare services.

2. The scheme was further required to submit a business plan as contemplated by section 35(11) of the MSA, setting out a plan on how and when the scheme would reach 25% solvency. Regulation 29(4) of the MSA requires a medical scheme failing to comply with Regulation 29 (2) to submit a business plan to the CMS on the course of action taken to ensure future compliance to the minimum required solvency of 25%. In addition, the CMS closely monitors such schemes through monthly meetings to guarantee the scheme's performance against the said business plan.

3. The scheme was required to limit non-healthcare expenditure (NHE) with effect from 1 January 2019 to R200 per average beneficiary per month (pabpm) or lower; and to go out on a tender within six months from 1 January 2019 for administration, marketing, and distribution services. Finally, the scheme was required to implement all the findings and recommendations of section 44(4)(a) of the MSA inspection report of Resolution Health dated September 2018.

These measures were articulated in the amalgamation letter to protect beneficiaries and ensure that the scheme returns to a healthy solvency level.

On 29 July 2019, the CMS rejected the scheme's 2019 business plan as it did not cater to the conditions to raise its solvency. Health Squared then appealed against the conditions imposed on the approval of the amalgamation resulting in the conditions remaining suspended pending the hearing. By December 2019, the scheme's solvency was 15.42%. The Appeals Committee later set aside the conditions mentioned above.

In early 2020, Health Squared submitted its five-year business plan, which the CMS approved the business plan on the basis that the scheme would improve its solvency to 18.1% by 31 December 2020, reduce its NHE and consolidate benefit options. In late 2020, the CMS cautioned Health Squared for non-compliance with the approved 2020 business plan as the scheme's marketing fees, NHE and administration exceeded the agreed budget with four months remaining. The scheme's solvency reached 17.32% by the end of December 2020.

The scheme projected 17.9% solvency by 31 December 2021, according to its 2021 business plan submitted to the CMS. The CMS approved the business plan, warning the scheme to abide by its NHE budget. Contrary to the projected 17.9% solvency in the 2021 business plan, the scheme closed at 6.04%.

Seeing this, the CMS agreed with Health Squared to appoint a statutory manager to turn around the fortunes of the scheme. As the statutory manager was supposed to take office with the scheme's solvency at 5.03%, the CMS uncovered that this figure was overstated and that the solvency was actually 3%. Health Squared refused to allow the appointed statutory manager to commence work, stating that it was too late and proposed that the scheme be liquidated. The CMS rejected the proposal to liquidate the scheme.

Moreover, the CMS discovered that Health Squared had postponed its Annual General Meeting (AGM) from June to August, then from August to September 2022, raising concerns about the legitimacy of the Board of Trustees. The CMS engaged the scheme on this and put in plans to put the scheme under curatorship. As the CMS was identifying a suitable curator, Health Squared Medical Scheme approached the High Court in terms of Section 51 of the MSA for leave to apply for the voluntary winding up of the scheme in the interest of its members, as contemplated by Sections 51(5)(e) and 53 of the MSA.

Overall, Health Squared lost 19.1% of its membership since 2019. Its average age was 47.1 years, 32.7% higher than the 2021 open schemes industry average of 35.5 years. The scheme's pensioner ratio was 25.9%, 135.5% higher than the 2021 open schemes industry average of 11.0%, which typically results in higher admission rates and higher costs when members are admitted, driving costs. The scheme's age profile continued to deteriorate

with the continued loss of membership. The scheme lost its younger and healthier membership, leading to a death spiral.
Due to its poor demographic profile, the scheme did not incur the same savings as the rest of the industry during the COVID-19 epidemic in 2020 and 2021. At the end of March 2022, the demographic profile had deteriorated even further to 48.0 years and a pensioner ratio of 27.4%.

The membership of 23 785 at the end of July 2022 is a 14.3% decrease from 2021.

Similarly, the CMS placed Thebemed Medical Scheme under curatorship when its solvency ratio was around 4%, following the failure of close monitoring interventions. The scheme was able to make a turnaround, resulting in the upliftment of curatorship and the appointment of a new Board of Trustees and Principal Officer to look after the scheme's affairs.

In keeping with its mandate, the CMS is committed to ensuring that the industry is stable and well-regulated and that medical scheme members are protected at all times.

/Ends/
Issued by:
Mr Zongezile Baloyi
Executive: Corporate Services

Customer Care Centre:
0861 123 267

Media enquiries:
media@medicalschemes.co.za