CIRCULAR

Reference:	Risk-Based Capital (RBC) Solvency Model
Contact person:	Mr Michael Willie/Dr Samantha Iyaloo
Tel:	(012) 431 0500
E-mail:	s.iyaloo@medicalschemes.co.za
Date:	02 April 2024

Circular 17 of 2024: Update on the Risk -Based Capital Solvency Model Framework

1. Purpose

1.1 The Council for Medical Schemes (CMS) hereby provides an update on the proposed alternative Risk-Based Capital Solvency Model.

2. Background

2.1 The Medical Schemes Act (MSA), No. 131 of 1998, Chapter 7, requires that medical schemes "shall maintain its business in a financially sound condition.". The Act further defines financial soundness as a medical scheme with sufficient assets for generally conducting business, providing for its liabilities, and meeting prescribed solvency requirements. Lastly, the Act provides that the Minister may make regulations after consultation with the Council concerning "the net assets to be held by a medical scheme".

2.2 Section 29 (2) of the regulations to the MSA and the current framework employed requires that "medical schemes must maintain accumulated funds expressed as a percentage of gross annual contributions for the period under review, which may not be less than 25%".

2.3 This one-size-fits-all approach does not sufficiently consider every medical scheme's unique characteristics.

2.4 The objective of a good solvency framework is to maintain financial stability, promote fair competition, ensure the efficient use of capital, and serve as an early warning sign of potential failure so that the medical scheme and regulator can institute remedial action.

2.5 The current solvency framework and requirement have been cited as one reason for increased health costs, as per the medical schemes' submission to the Competition Commission's Inquiry into the Private Healthcare Sector.

Chairperson: Dr T. Mabeba Chief Executive & Registrar: Dr S Kabane
Block A, Eco Glades 2 Office Park, 420 Witch-Hazel Avenue, Eco Park, Centurion, 0157
Tel: 012 431 0500 Fax: 086 206 8260 Customer Care: 0861 123 267
Information@medicalschemes.co.za www.medicalschemes.co.za

2.6 Circular 68 of 2015 proposed some alternative solvency frameworks and models for consideration. The circular also advised that the CMS was investigating a possible move to an alternative risk-based approach in line with international solvency regimes. The CMS risk-based solvency model was described, and the details of the technical discussion document are available here. The CMS advised medical schemes to use a similar approach to test their solvency requirements internally and invited submissions using the new framework. The CMS also sought industry input on alternative RBC models that were in existence and conducted an impact assessment within the industry.

2.7 Circular 44 of 2019 provided an update on the submissions received. All respondents supported moving towards a risk-based approach to solvency; however, there were differences in the technical details proposed. Despite the minor issues in submissions, it was generally agreed that the framework should be aligned to the Solvency Assessment and Management (SAM) framework and adjusted as necessary for the scheme environment.

2.8 Schemes were advised that for the CMS to calibrate the model and to minimise unintended adverse effects, a pilot period may be proposed, with further adjustments to the proposed model as per the submissions received.

2.9 Schemes were advised to be given adequate notice before such a requirement is implemented, including technical details of the calculations and the implementation strategy.

3. Discussion

3.1 The CMS conducted a thorough assessment of three Risk-Based Capital Models that could potentially be applied to medical schemes.

3.2 Additionally, the CMS engaged the services of an actuarial firm to review these models and assess their actual implications and effects. These include the following:

- A model proposed by the CMS (“the CMS model”) - a model developed by the CMS internally.
- A model proposed by the Industry Technical Advisory Panel (“ITAP model”) of the CMS developed in collaboration between CMS and the private sector.
- A model proposed by Scott and Lowe at the Actuarial Society of South Africa’s Actuarial Convention in 2015 (“Scott and Lowe model”).

3.3 The review revealed that implementing the RBC model would lead to notable

Chairperson: Dr T. Mabeba Chief Executive & Registrar: Dr S Kabane
Block A, Eco Glades 2 Office Park, 420 Witch-Hazel Avenue, Eco Park, Centurion, 0157
Tel: 012 431 0500 Fax: 086 206 8260 Customer Care: 0861 123 267
Information@medicalschemes.co.za www.medicalschemes.co.za

variations in capital requirements compared to the current solvency requirements.

3.4 The RBC model will not be used as a standalone tool but rather one of the tools to be used as an early preventative and corrective warning system to minimise the adverse impact of insolvencies.

4. Conclusion

4.1 The project concluded that although various models work better under different circumstances, the RBC methods should be utilised as an early warning system rather than radically changing the status quo. Medical schemes would struggle with the implementation of the new RBC model due to the complexities involved with the various models.

4.2 However, the following proposals are made and are under consideration:

4.2.1 The RBC should be utilised as an early warning system rather than radically changing the status quo.

4.2.2 The RBC should be considered alongside other risk-based early warning systems, such as the Composite Risk Model.

4.2.3 An initial shadow period with a phased-in approach will allow schemes to adapt to the new framework and enable schemes and the CMS to assess the potential impact.

4.3 Input on the proposed way forward can be submitted to rbc@medicalschemes.co.za by the **30th of April 2024** .

Yours sincerely,

Sipho Kabane
03/04/2024 11:08:03(UTC+02:00)
Signed by Sipho Kabane,
s.kabane@medicalschemes.co.za

SIGNIFLOW.COM

Dr Sipho Kabane
Chief Executive and Registrar
Council for Medical Schemes

Chairperson: Dr T. Mabeba Chief Executive & Registrar: Dr S Kabane
Block A, Eco Glades 2 Office Park, 420 Witch-Hazel Avenue, Eco Park, Centurion, 0157
Tel: 012 431 0500 Fax: 086 206 8260 Customer Care: 0861 123 267
Information@medicalschemes.co.za www.medicalschemes.co.za