

Mergers, acquisitions shape SA medical scheme industry

The consolidation of South Africa's medical scheme industry is accelerating with a major merger currently underway and another scheduled for early 2011, Lee-Ann du Toit, chief marketing officer of Momentum Medical Scheme Administrators, has told a meeting of the country's top health care professionals in Cape Town.



Allen Tshabangu gives a global overview on mergers and acquisition at the quarterly Metropolitan Health Group and Qualsa Engage Forum

"By the end of this year South Africa will have 98 medical schemes, a substantial drop from the 168 registered schemes in 1999," she said.

Du Toit was addressing the quarterly Metropolitan Health Group and Qualsa Engage Forum which took place on 29 October. Also speaking at the event were Allen Tshabangu, executive chairman of the Merit Group and Barry Childs, from Light House Actuarial Consulting.

Global overview

Tshabangu gave a global overview of mergers and acquisitions while Childs explained how health and financial risk can be managed during a consolidation.

Du Toit explained that the number of schemes was being reduced through mergers and acquisitions with one or two liquidations likely in the next five to 10 years. "The consolidating of the industry started ten years ago and in that time there has been a 71% drop in the number of schemes," she said.

In her presentations Du Toit gave the administrator's viewpoint highlighting the pitfalls of mergers and acquisitions that were not thought through. Planning and communication with all stakeholders, especially members, was crucial for success.

"When two schemes merge there is usually a 10% loss in members. To prevent this, the merging businesses have to focus on retention and not sales through the process of the merger."

Du Toit went on to say that a merger or acquisition was a sensitive process.

"The businesses involved have to consider micro- and macro-economic factors for it to be effective."

Speculation of a merger

Ingwe Health Plan is currently being transferred to Momentum Health to improve its scale, while there was speculation of a merger between Liberty and Spectramed in January 2011.

Earlier this year Liberty Health merged with Medcover; and Bestmed with Telemed.

The reduction in the number of schemes was a formidable change in the medical scheme landscape brought on by pressure like the Government Employees Medical Scheme (GEMS) in the private healthcare market. Smaller schemes had also been driven towards consolidation to protect their members. Tshabangu said the global business community and the medical scheme industry in particular, had been cautious about mergers and acquisitions following the economic downturn of 2008/9.

Future looking good

"The future is looking good with the global mood much more optimistic," he said. He was upbeat about the impact of National Health Insurance saying the government was not antagonistic in terms of regulation of the industry.

Tshabangu, like Du Toit, emphasised the importance of planning and communication in an amalgamation: "There also needs to be a strong core corporate strategy or else it can result in mistakes," he said.

No sign of mergers, acquisitions abating

Acquisition and integration teams should also be kept separate to ensure every phase of the process was properly planned and executed.

In his presentation Childs said that, from an actuarial perspective, mergers and acquisitions in the local medical scheme industry showed no sign of abating.

"Some see the future holding a handful of open schemes (around five) and a smaller range of restricted schemes, more industry based than employer based."

NHI would also have a huge impact on the overall landscape of the local medical scheme industry.

"It's a volatile industry with enormous cost pressures for schemes," he pointed out. "The industry is also becoming increasingly complex and carries huge overheads, add to this increasing fiduciary responsibility and accountability and schemes are faced with the questions of sustainability," said Childs.