



BHF Southern African Conference

Mergers & Acquisitions:

Conducting due diligence analysis in the healthcare funding environment

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MERGERS: KEY CONSIDERATIONS

OBJECTIVES

- Critically test reasoning before embarking on mergers
 - Why?
 - Caution against use of mergers as alternative to organic membership growth
 - If inappropriate fit, potentially creates instability that may take some to resolve

PROCESS

- CfMS will critically review submissions
 - Compliance to Section 63
 - Compliance to Scheme Rules
 - Fair and balanced communication to stakeholders
 - Not detrimental to the interests of the majority of beneficiaries
 - Not render accepting scheme unable to meet requirements of the Act, to remain financially sound
- Competitions Act requirements

MERGERS: KEY CONSIDERATIONS

REPORTING

- Actuarial report
- Member communications
- Voting communication
- Joint Exposition
- Independent Report (CfMS optional)
- Auditor's report &
- Section 63 certification

(For larger or more complex mergers)

- Heads of Agreement
- Competition Commission submission
- Due Diligence

DEVIL IS IN THE DETAIL

- Benefits
 - How chronic disease is covered (ex-PMB's)
 - Choice of preferred providers and DSP's
 - Disease interventions
 - Application of protocols and formularies
 - Negotiated scheme tariffs and potential level of member co-payment
- Variation in Scheme Rules
 - Adult dependants
 - Financial dependency
- Liabilities
 - Scheme debtors
 - Termination clauses
 - Unpaid claims
- Scheme contracts

MAJORITY OF MEMBERS' INTERESTS?

- Background to Schemes
- Objectives of merger
- Pros & Cons of merger for each scheme/ membership category
- Financial implications
 - Solvency
 - NHE
 - Membership profiles
 - Claims patterns
 - Contribution levels
 - Budgets
- “Best fit” benefit match
 - Default benefit options
 - Mitigation of problem areas
 - Impact on member contributions
- Risks & Mitigation
- Opinion on Members' Interests and Financial Soundness

LEGAL AND OTHER FINANCIAL RISKS?

- Detailed Legal requirements
 - Merger and Approvals Process
- Any conflicts in the Rules
- Non-Compliance matters and implications
- Scheme contracts
 - Termination Clauses
 - Risk exposure
- Governance during wind-down period
- Management policy
 - No influence
- Litigation
- Staff contracts
- Insurance contracts
- Other potential liabilities

- Question own motives and reasoning
- Engage with CfMS
- Resource up for the process
- Be prepared to consult expertise
 - Actuaries
 - Internal and External Auditors
 - Lawyers