HEALTH SQUARED
MEDICAL SCHEME
Registration No: 1141

18 August 2022

Dear Member

VOLUNTARY WINDING UP: HEALTH SQUARED MEDICAL SCHEME

1. The purpose of this letter is to give notice to the members of the Scheme that at its recent meeting, the Board of Trustees of Health Squared Medical Scheme resolved to approach the High Court in terms of Section 51 of the Medical Scheme's Act 131 of 1998 ("MSA") for leave of the High Court that the Scheme apply to court for the voluntary winding up of the Scheme in the interest of its members, as contemplated by Section 51(5)(e) and 53 of the MSA. This letter sets out the primary reasons for the Board's resolution and also seeks to provide members with the necessary information to enable members to take appropriate steps in anticipation of the court granting the winding up application.

2. It is important that members be advised that the Scheme will be voluntarily wound up as a solvent business which has assets which presently exceed its liabilities. The Board is also advised that the Scheme presently has sufficient reserves to meet claims which will have been incurred but not reported on the date of voluntary winding up. However, having received actuarial and legal advice, it is clear that the Scheme's financial position will deteriorate further, to the extent that towards the end of 2022 the Scheme will have reached such a low level of reserves that it may not be able to meet members claims as they arise. The Scheme's ability to discharge its obligations to members relating to healthcare costs incurred by them will worsen with every passing month.

3. The primary reasons for the Board's decision to apply to court for leave to wind up the Scheme are the following:

3.1. The primary driver of the financial deterioration of the Scheme during 2020 and 2021 was high COVID – 19 claims expenditure. The Scheme was particularly impacted relative to medical scheme industry norms due to its older than average age profile. As at 31 July 2022, had an average beneficiary age of 49.7 years which is 16.1 years higher than the medical scheme industry average of 33.6 years.

3.2. In addition, the Scheme has experienced a considerable loss of members in recent times.

3.3. The Scheme has also had a worse than expected claims experience in 2021 and 2022.

3.4. The combined effect of the above factors is that the Scheme's solvency ratio [the ratio used to measure a scheme's reserves available to meet claims] has suffered a significant and relentless decline, despite numerous remedial interventions:

3.4.1. At the end of 2020, it was 17.32%;

3.4.2. At the end of 2021, it was 6.04%

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3.4.3. At the end of July 2022, it was approximately 2.15%.

3.4.4. the Scheme's 2022-year end solvency ratio is projected by the scheme actuaries, to be between 0.2% and 2.3%.

4. The Scheme has pursued various options to avoid a winding up which included proposed amalgamation transactions with various other Schemes. These discussions have been ongoing since the beginning of the year and have been unsuccessful. Prospective amalgamation partners have all expressed concern at the Scheme's risk profile as well as its low reserves as being prohibitive of possible amalgamation. The last response declining a proposed amalgamation was received on 15 August 2022.

5. The application for leave to file a winding up application has been launched and will be heard in the High Court, Johannesburg on 30 August 2022. If leave is granted, the winding up application will be launched on 1 September 2022. This will be the effective date of the winding up of the Scheme according to the advice received by the Board albeit that it is anticipated that such an application, which must be brought on no less than 15 days' notice to the Registrar of Medical Schemes, will be heard on 20 September 2022.

6. The effect of the launching of the winding up application is that with effect from 1 September 2022 the Scheme will no longer be conducting the business of a medical scheme. The Scheme will thus from that date no longer be receiving contributions in return for undertaking the liability to defray members claims relating to healthcare services. Members will thus be covered for their claims arising from health events which took place up until 31 August 2022, provided that their contributions have been duly paid.

7. In relation to those members who pay their contributions in advance, their contributions will be up to date to cover claims incurred until 31 August 2022. For arrear contributing members, they are reminded they have an obligation to pay their contributions by no later than 31 August 2022 failing which the Scheme will be entitled not to meet their claims.

8. Members are advised to seriously consider taking steps to secure new membership at other medical schemes with effect from 1 September 2022. The Scheme will use its best endeavours to assist members in the period leading up to 31 August 2022 by providing information necessary for them to apply for membership at new medical schemes including the issuing of membership certificates.

9. Claims relating to the period ending 31 August 2022 and member queries will be attended to in the normal course of business until the Scheme is finally wound up.

10. An abridged notice of motion in the application for leave to apply to court for the voluntary winding up of the Scheme is attached hereto marked "**A**". A full set of the application papers can be accessed at the following link: www.mcinc.africa/healthsquared.

11. As mentioned above, the winding up application is intended to be launched on 1 September 2022. Members will similarly be notified when the winding-up is launched.

Yours Faithfully,

Elias Mabena

Principal Officer

IN THE HIGH COURT OF SOUTH AFRICA

(GAUTENG LOCAL DIVISION, JOHANNESBURG)

Case number: 2022-015979

In the application of:

HEALTH SQUARED MEDICAL SCHEME (for leave, in terms of section 51(2) of the Medical Schemes Act 131 of 1998, to apply for its winding-up)	Applicant
THE REGISTRAR OF MEDICAL SCHEMES	First Respondent
THE COUNCIL FOR MEDICAL SCHEMES	Second Respondent

ABRIDGED NOTICE OF MOTION

BE PLEASED TO TAKE NOTICE that application will be made on behalf of the abovementioned applicant on **Tuesday 30 August 2022** at **10:00 am** or as soon thereafter as counsel for the applicant may be heard, for an order in the following terms:

1. That this application be enrolled as one of urgency in accordance with the provisions of uniform rule 6(12)(a), and that the forms and service provided for in the rules of the above honourable court be dispensed with;

2. That the applicant be granted leave in terms of section 51(2) of the Medical Schemes Act 131 of 1998 ("*the MSA*") to apply to the above honourable court

for the winding-up of the applicant's business as contemplated in sections 51(5)(e) and 53 of the MSA;

3. That the costs of this application be costs in the cause of the intended winding-up application, but should any party oppose the relief sought herein, that an appropriate cost order will be sought against such party;

TAKE NOTICE FURTHER that should any person or party having an interest in the relief sought herein, intend opposing the relief sought, such person or party is required:

(a) to notify the applicant’s attorneys in writing at the address below by no later than 12:00 on Monday 22 August 2022; and

(b) to file your opposing papers, if any, by no later than 17:00 on Wednesday 24 August 2022;

and further that you are required to appoint in such notification an address referred to in Rule 6(5)(b) as the address at which you will accept notice and service of all notices and documents in these proceedings.

KINDLY ENROL the matter for hearing accordingly.

DATED AT JOHANNESBURG ON THIS THE 18TH DAY OF AUGUST 2022.

Signed T Malatji

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