

In the matter between:

**VMEDICAL SOLUTION (PTY) LTD**

Acquiring firm

And

**NEIL HARVEY & ASSOCIATES (NHA) Trust**

Target firm

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Panel : DH Lewis (Presiding Member), N Manoim (Tribunal Member), M  
Mokuena (Tribunal Member)

Heard on : 10 November 2008

Order issued on : 10 November 2008

Reasons issued on : 3 December 2008

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### **REASONS FOR DECISION**

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### **APPROVAL**

[1] On 10 November 2008 the Tribunal issued an order in which it unconditionally approved the merger between the aforementioned parties. The reasons for the decision follow:

### **PARTIES TO THE TRANSACTION**

[2] The primary acquiring firm is Vmedical Solutions (Pty) Ltd ("Vsolutions") which is wholly owned by Repli Investments No 22 (Pty) Limited, which post merger will be renamed Liberty Health Holdings ("LHH").<sup>1</sup> LHH wholly owns Vmed administrators (Pty) Limited ("Vmed").

[3] The primary target firm is Neil Harvey & Associates Trust ("NHA Trust") which recently acquired the shares of Neil Harvey & Associates (Pty) Ltd ("NHA").

### **THE TRANSACTION**

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<sup>1</sup> LLH is an independent medical scheme which only shares a name with Liberty Health Medical Scheme but does not form part of its structure.

[4] In terms of the proposed transaction NHA Trust will sell its assets, cede and assign its contracts to Vsolutions.

## **ACTIVITIES OF THE MERGING PARTIES**

[5] VSolutions through Vmed is active in health care administration, i.e. the provision of medical aid administration services to medical schemes in South Africa. NHA is considered a significant South African third party provider for medical aid administration and related IT systems and services.

## **RELEVANT MARKET**

[6] The relevant market is considered to be one for the provision of medical aid administration software and related IT services in the upstream, and the market for third party medical aid administration services in which the software and other IT products are used in the downstream. The relevant geographic market is national in scope.

[7] There is no horizontal overlap between the activities of the merging parties as Vmed is active in the downstream market for third party medical administration, while NHA is active in the upstream market for third party provision for medical aid administration software and related IT services.

## **COMPETITION EVALUATION**

### *The upstream market*

[8] In the market for third party providers of medical aid administration software and related IT services in South Africa, NHA has an estimated market share of 43% which is the largest market share compared with its competitors in this market; i.e. Metropolitan (32%), MIP (Medstar) (21%) and Cumulus (4%). This is a highly concentrated market, with only four suppliers, three of which together make up approximately 96% of the total market.<sup>2</sup> However the high concentration level in this market is not as a result of the proposed merger, and will not be worsened by the proposed merger.

### *The downstream market*

[9] The downstream market for third party medical administration in South Africa is competitively structured. Old Mutual Healthcare has the highest estimated market share of 39%, Allcare administrators has 11%, while some 9 other players have estimated

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<sup>2</sup> The Commission estimated the HHI to be around 3330.

market shares ranging between 1% to 7%.<sup>3</sup> Vmed has an estimated market share of 11%.

## **VERTICAL DIMENSION**

[10] There is a vertical relationship between the merging parties in that NHA currently provides medical aid administration software and related IT services to Vmed as well as to certain of its competitors in the downstream market. However the Commission found that vertical integration will not result in input foreclosure given that Vmed makes up a very small proportion of NHA's total sales.<sup>4</sup> Customer foreclosure is also unlikely to occur post merger as Vmed has sourced all IT products and services from NHA in the last two years.

## **THIRD PARTY CONCERNS**

[11] Old Mutual Healthcare which is currently a customer of NHA in the market for provision of medical aid administration software and IT services, and a direct competitor of Vmed in the market for provision of medical aid administration services to medical schemes, expressed two concerns regarding the proposed merger. The first was that Vmed through its association with NHA would have access post-merger to Old Mutual Healthcare's confidential client data, and secondly that the merged entity would become a platform for information exchange regarding medical aid administration with other administrators through direct access to the mechanics of computing administrators by providing software.

[12] At the hearing Mr Botha from Liberty group submitted that NHA does not have direct access to confidential client information as such information belongs to the medical scheme rather than the administrators. He further submitted that such information is common knowledge in the industry as it can be easily obtained through the Registrar of medical schemes who publishes information on the growth of schemes annually. On this basis the Tribunal accepts that there is no incentive for the merging parties to engage in the alleged possible information exchange as it would not benefit anything from such activity.

## **CONCLUSION**

[13] Based on the foregoing, the Tribunal finds that the proposed transaction is unlikely to substantially prevent or lessen competition and does not lead to any market

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<sup>3</sup> These players include; Resolution Administrators - 7%, Stats Medical Aid Administrators - 6%, Full Circle Health - 6%, Prosperity Health Managers - 4%, Providence Healthcare Risk Managers - 4%, Eternity Private Health - 4%, Private Health Administrators - 1% and Thebe Bophelo Healthcare Administrators - 1%.

<sup>4</sup> The figure for the period 1 March 2007 - 28 February 2008 is 3%.

share accretion post merger. There are no public interest concerns. Accordingly, we approve this merger without any conditions.

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D Lewis  
Tribunal Member

3 December 2008

Date

N Manoim and M Mokuena **concur** in the judgment of D Lewis

Tribunal Researcher: L Xaba

For the merging parties : Bowman Gilfillan

For the Commission : G Mutizwa

(Mergers and Acquisitions)