BANKMED MEDICAL SCHEME (BM)
GCR RATING: DECEMBER 2017

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of BM as reviewed in May 2018 (in respect of 2017). Bankmed was established in 1914 to service the banking and financial services industry and provides services to over 50 institutions. Bankmed appointed Discovery Health (Pty) Ltd as administrators effective 1 January 2016.

The rating is unchanged at AA+ and it is based on the following key factors:

- BM's has continued to manage its statutory solvency levels slightly down to 39% to maintain affordability levels. Earnings capacity was balanced with the utilisation of surplus reserves to maintain financial stability.
- Liquidity levels are adequate and year on year fluctuations are due to a flexible investment income strategy. Gross and net cash coverage levels decreased to 4 months (5 FYE 2016) and 2 months (3 FYE 2016) respectively.
- The scheme's membership base has been stable which remains a key rating strength.
- BM's market share of the closed medical scheme sector remains at 6.6%. There is however a high concentration of membership in the financial services industry and three employer pools are responsible for a high membership weighting.

2. Membership Base

- Principal members increased by 1.5% to 108 044 from 2016 and the total number of beneficiaries increased to 218 358.
- The three largest banks account for 74% of the scheme's membership, and the largest employer accounted for 27%.
- BM will only allow participating employers (in the industry) to join which offer Bankmed as the sole medical scheme and members have to be permanently employed. This condition reduces the migration risk.
- The scheme's positioning in a captive industry ensures a high member retention rate. The average principal member's and beneficiaries' age increased to 42 years (FY16:41) and 32 years (FY16: 31) respectively.

3. Product Line

Bankmed offers 6 options of which the Plus, Comprehensive and Traditional plans represent the higher and mid-tier options. These options showed a reduction in members.
The more affordable plans, namely the Essential, Core Saver and Basic plans registered some strong growth in membership due to the down grading of plans by members. The Core Saver plan now accounts for 23% of total membership and 16% of total net premiums.

The results of the most popular plans are summarised below

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Basic	20.2	73.6	90.2
Essential	2.3	41.5	14.6
Core Saver	22.5	72.8	121.3
Traditional	12.8	95.2	3.0
Comprehensive plan	38.7	106.1	(207.7)
Plus plan	3.5	118.5	(57.9)
TOTAL	**100.0**	**95.3**	**(36.4)**

* NPI- Net Premium Income

- The Comprehensive and Plus options made net health care deficits whilst the 3 affordable options showed a remarkable improvement to record even higher surpluses compared to 2016.
- The total net healthcare deficit reduced from R 128.8m to R 36.4m.
- The overall claims ratio as n percentage of NPI improved slightly from 96.5% to 95.3% but remains on the high side.

4. Asset Management

This function is outsourced to external asset managers Investec (mainly equity) and Taquanta (mainly bonds and cash). The total portfolio of R 2,897 billion consists mainly of:

Cash and cash equivalent:	R 1 419.2 m (49.0%)
Local and offshore bonds:	R 724.8 m (25.0%)
Listed equity:	R 669.8 m (23.1%)
Offshore managed:	R 83.0 m (2.9%)

The net average investment yield (excl. unrealised gains) is stated at 5.5% (down from 7.9%).

5. Financial Performance

A summary of the last three years' financial performance is reflected below:

	(R'millions)		
	2017	**2016**	**2015**
Gross premiums	4 657.8	4 306.0	3 969.5
Members' savings contributions	(604.5)	(571.3)	(540.6)
Net premium income	4 053.2	3 734.6	3 428.8
*Claims paid	(3 863.1)	(3 604.9)	(3 304.5)
Gross underwriting surplus	**190.1**	**129.7**	**124.3**
Non healthcare expenditure	(226.5)	(258.5)	(274.6)
Net healthcare result	(36.4)	(128.8)	(150.3)
Investment income (and other)	119.2	166.6	121.1
Net surplus for the year	**82.8**	**37.8**	**42.8**

BALANCE SHEET

Members' surplus	2 068.1	1 917.5	1 916.2
Members' savings account	661.9	611.8	534.9
Provisions for claims	117.2	146.7	153.1
Other liabilities	78.7	53.7	31.2
TOTAL LIABILITIES	**2 925.8**	**2 729.7**	**2 635.4**
Investments	2 879.9	2 684.9	2 493.2
Debtors and prepayments	27.8	44.8	142.2
TOTAL ASSETS	**2 925.8**	**2 729.7**	**2 635.4**

* Includes managed care fees

- Gross contributions increased by 8% to R4.7 billion which is higher than the average of 7% in previous years.
- Total claims rose by 7% which resulted in the lower higher claims ratio of 95.3%. The Comprehensive option continues to show an increase in high claims ratio of 106%. Being the largest option in membership (38.7%) it will continue to impact on the overall claims ratio.
- Total non-healthcare expenditure reduced by 12% to R 227 millions and to 5% of gross contributions. This is below the industry average of 6%.

- The net healthcare deficit narrowed to R 36 million which represents a net healthcare margin (deficit as a % of net contributions) of -1% compared to the average of -3% of the previous four years.
- Net investment income decreased by 26% following a reduction in realised profits on investment disposals. The net surplus nevertheless more than doubled to R 83 million.
- Members' surplus increased by R 151 million to R 2 068 million.

6. Solvency and Reserves

- The members' surplus to NPI (net premium income) basically remained unchanged at 51%.
- Statutory solving margin eased from 40.7% in 2016 to 39% which is well above the statutory requirement of 25%.
- Accumulated funds per principal member increased from R 16 211 to R 16 733 and covered average monthly claims by a sound 5.6 x (5.7 in 2016). The peer group average is 3.9x.

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HEALTHMAN