

FEDHEALTH MEDICAL SCHEME (FH): GCR RATING 2017

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of FH as reviewed in May 2018 (in respect of 2017). Fedhealth a well-established player in the open medical scheme industry is administered by Medscheme and has an open market share of 3.0%. The rating of AA- is unchanged from 2016 and based on the following key factors:

- A sound reserve position of 32%.
- Earnings capacity is viewed as adequate as the net healthcare margin improved from -5.6% in 2016 to 0.9% in 2017 due to a high average contribution rate increase of 13.4%.
- The average beneficiary age of 39 years still track above the open scheme average of 35 years. The membership base remains fairly consistent and individuals represent the majority of members and concentration exposure in the corporate segment is limited.
- Liquidity is viewed as adequate with the net cash coverage ratio averaging 2 months and should improve in the future as the investment portfolio is rebalanced.

2. Membership Base

- Principal members decreased by 2% from 73 480 (2016) to 71 980 in 2017 owing to the high average annual increase in contribution rate of 13.4%.
- Membership is expected to grow by 3.2% in 2018.
- Individual members represent 61.6% to the risk pool and corporate membership stood at 30.8%. Government employee membership represents 7.5% of the risk pool.
- The average principal member's age equated to 49.2 years and beneficiaries' average age stood at 39 years.
- The pensioner ratio equates to a slightly higher 14.9%.
- The single largest broker represents 6% of the risk pool and the three largest combined stood at 12%.
- Employer group membership is well diversified with the single largest accounting for 2% of total membership and the 10 largest groups combined equates to 9%.

3. Product Line

- There are 3 main options namely Ultima, Maxima and Blue Door.

In addition to risk benefits (hospitalisation and an extended list of chronic disease benefits) most plans offer the following day to day benefits:

- (a) OHEB: Out-of-hospital benefits are covered to an initial level of cover before healthcare savings is utilised. Only available on certain options.
- (b) HSA: A healthcare savings account is included (in most of the Ultima and Maxima plans) to supplement day-to-day cover.
- (c) Threshold benefit: Covers members for certain day-to-day benefits once the OHEB and savings threshold has been reached and day-to-day medical expense claims have accumulated to a pre-determined level. (Only available on the 5 top options).

- The results of the most popular plans are summarised below

Plan	Membership growth (%)	Claims / NPI (%)	Net healthcare result (R' million)
Ultimax	-16.4	84.4	3.6
Maxima Plus	-10.8	98.0	-4.3
Maxima Exec.	-14.1	109.2	-57.8
Maxima Advanced	-16.3	101.7	-16.1
Maxima Standard	-8.8	84.9	40.0
Maxima Basis	-10.8	81.5	13.2

NPI- Net Premium Income

Fedhealth's overall claims ratio decreased from a five year average of 94% to 87% owing to a relative high average increase in contributions and benefits derived from risk management initiatives.

4. Asset Management

This function is outsourced to 4 external asset managers.

The portfolio consists mainly of:

Cash and cash equivalent:	R 863.1m (59.3%)
Fixed interest:	R 254.0m (17.5%)
Listed equity:	R 265.3m (18.2%)
Property:	R 60.7m (4.2%)
Other:	R 11.3m (0.8%)
	R 1 454.5m

The total portfolio value increased by 30% from R 1 116.7 million in 2016.

Gross cash coverage (of aggregate monthly contributions) came to 4.0 months whilst net cash coverage increased from 1.5 months to 3.0 months.

The average investment yield excluding unrealised movements is stated at 6.8%

5. Financial Performance

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

	(R' millions)		
	2017	2016	2015
Gross premiums	3 382.2	3 114.1	2 913.6
Members' savings contributions	-418.3	-237.9	-163.3
Net premium income	2 963.8	2 876.3	2 750.3
*** Claims paid	-2 574.9	-2 690.6	-2 507.1
Gross underwriting surplus	388.9	185.7	243.2
Non-healthcare expenditure	-360.9	-345.5	-311.0
Net healthcare result	28.0	-159.8	-67.8
Investment income (and other)	75.9	102.7	78.4
Net surplus/-deficit for the year	103.9	-57.1	10.6

*** Includes managed care expenses

BALANCE SHEET	2017	2016	2015
Members' surplus	1 115.0	994.1	1099.7
Members' savings account	216.5	186.0	187.5
Provisions for claims	144.9	113.1	91.5
Other liabilities	34.2	28.0	22.2
TOTAL LIABILITIES	1 510.7	1 321.2	1 401.0
Investments	1 454.4	1 116.7	1 218.8
Debtors and prepayments	56.3	204.5	182.2
TOTAL ASSETS	1 510.7	1 321.2	1401.0

- The average annual contributions increased by 13.4%. The loss in members however brought the gross contribution increase to a lower 8.6%.
- Total non-healthcare expenditure costs of R 361 million equated to 10.7% as a percentage of gross contributions compared to the industry average of 9.9%.
- Delivery costs per average beneficiary per annum amounted to R 206 (2016: R197) compared the open industry average of R 176.
- The net healthcare result improved from a deficit of R159 million in 2016 to a surplus of
- R28 million.
- The net surplus (which includes investments income) amounted to R 104 million compared to a net deficit of R 57 million in 2016.

6. Solvency and Reserves

The statutory reserve level stabilised at 32% and is expected to be maintained at that level.

The members' surplus to NPI (net premium income) ratio contracted to 42%.

Accumulated funds rebounded by 11% to R1.1 billion which increased the amount per principal member to R 15 079 (2016: R13 358), which is still above the open scheme average of R 12 907.

Coverage of average monthly claims by accumulated funds rose to 5.1x (2016: 4.4x).

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