MEDSHIELD MEDICAL SCHEME (MMS): GCR RATING
DECEMBER 2017

1. Introduction

GLOBAL CREDT RATING CO. (GCR) recently published its latest credit rating of MMS as reviewed in June 2018 (in respect of 2017). MMS which was established in 1996 (after the amalgamation of Universal, Medicaid and Medcare medical schemes) and is self- administered. Oxygen Medical scheme merged with Medshield in October 2010 and after Gen-health Medical Scheme's demise most of their former members joined Medshield without any reserves being transferred.

The rating of AA- (which is unchanged from 2016) is based on the following key factors:

- The Scheme's positive growth in membership of 7.4% will see the scheme's market share of the open scheme industry remain above 3% (3.3% in 2017).
- The age profile remained elevated and there is a high degree of broker concentration risk.
- Solvency level reduced from 52% to 44.6% but high liquidity levels and a net cash coverage of 3.1 months remain sound.
- An adverse claims experience in 2017 resulted in a significant unexpected deficit. Consistency in earnings control will be closely monitored in future.
- There was a notable deterioration in the age profile.

2. Membership base

- Principal members increased by 7.4% to 78 827 and the number of beneficiaries increased to 160 270.
- Government employee membership represents 25.5% of total membership whilst corporate and individual membership stood at 31.7% and 42.8% respectively.
- Intermediary concentration is notable as the two largest brokers represent 27% of the risk pool membership.
- The average age of beneficiaries was reported at 37 years compared to the industry average of 35 years. The pensioner ratio decreased from 19.7% to 18.7%.

3. Product line

A brief summary of the 7 options currently on offer is as follows:

- Medibonus : This traditional option offers comprehensive hospital cover with some procedures covered at 200% of scheme rate. Limited day-to-day cover and annual limits to chronic medication apply.
- Mediplus : Similar to Medibonus but unlimited hospital cover is available through a hospital network.
- Medivalue : Offers unlimited hospital cover with limited day-to-day benefits.
- Premium Plus : Unlimited hospital cover at a hospital of choice with certain procedures covered at 200% of scheme rate. Day-to-day benefits are covered from members' savings accounts.
- MediSaver : A new generation option with unlimited in-hospital cover at a network hospital (with extended out-of-hospital maternity benefits). Day-to-day benefits are funded via a medical savings account.
- MediCore : Offers unlimited in-hospital benefits only through a network of hospitals with some procedures covered at 200% of scheme rate.
- MediPhila : A low cost option which offers unlimited hospital cover for PMB conditions through a Mediphilia network.

The results of the plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Mediplus	32.0	92.9	(27.5)
Medivalue	39.4	92.0	(58.5)
Medibonus	5.4	103.4	(30.1)
MediPhila	4.2	73.3	1.4
MediCore	6.9	108.2	(41.2)
MediSaver	8.7	112.3	(61.7)
Premium Plus	3.4	118.7	(39.5)
TOTAL	**100**	**97.8**	**(256.8)**

*NPI- Net Premium Income

- The overall claims ratio as a percentage of NPI is to 97.8% (2016: 94.78). The average over the last 3 years is 95.7% compared to the open scheme average of 88.6%.
- The total net healthcare deficit increased from R139.7 million in 2016 to R256.8m in 2017.
- The majority of members (71%) belong to the MediPlus and MediValue options. Only MediPhilia recorded a net healthcare surplus albeit a small one.

4. Asset management

The investment portfolio consists mainly of:

	2017
Cash and cash equivalents:	R 903.9 m (44.7%)
Listed equities:	R 723.0 m (35.8%)
Interest securities:	R 394.6 m (19.5%)
Total	R2 021.5

Cash and cash equivalents decreased to R903.9m but still assists liquidity metrics to trend within a sound range with the net cash coverage of 3.1 months.

The average investment yield is stated at an impressive 9%.

5. Financial performance

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

INCOME STATEMENT	**(R'millions)**		
	2017	**2016**	**2015**
Gross premiums	3 059.0	2 793.1	2 703.2
Members' savings contributions	(116.6)	(112.1)	(115.2)
Net premium income	**2 942.4**	**2 680.9**	**2 588.0**
*Claims paid	(2 879.1)	(2 537.3)	(2 452.2)
Gross underwriting surplus	**63.3**	**143.6**	**135.9**
Non- healthcare expenditure	(320.1)	(283.3)	(249.8)
Net healthcare result	**(256.8)**	**(139.7)**	**(113.9)**
Investment and other income	167.2	155.3	157.8
Net surplus/(deficit) for the year	**(89.6)**	**15.6**	**43.9**

BALANCE SHEET

Members' surplus	1 573.9	1 638.7	1 626.8
Members' savings account	161.5	146.7	138.6
Provisions for claims	170.0	103.3	114.7
Other liabilities	146.0	145.6	144.0
TOTAL LIABILITIES	**2 051.5**	**2 034.3**	**2 024.1**
Investments	2 021.5	2 015.5	2 004.0
Debtors, prepayments and other	30.0	18.8	20.0
TOTAL ASSETS	**2 051.5**	**2034.3**	**2 024.1**

* Due to a change in reporting requirements managed care fees are now included in healthcare expenditure.

- Contribution increases averaged 9.7% which represents an increase of 9.5% in gross premiums.
- Total claims increased by 13.5% from R 2.541 billion to R 2.879 billion.
- Total delivery cost ratio is 10.5% (total non-healthcare expenditure as a percentage of gross contributions) which is on par with the open scheme average. The scheme's average was a lower 9.5% over the last 3 years.
- The healthcare deficit of R 256.8 m was boosted by investment income and other income of R 167.2 m to a net deficit of R 89.6 m.

6. Solvency and reserves

The members' surplus declined by 4% to R 1.574 bn, and the statutory funding ratio decreased from 52% to 45%. The solvency dilution was expected as reserves were utilised to make contributions more affordable which is one of the reasons for the membership increase of 7%. Accumulated funds per principal member of R 17 327 remained above the industry average (R 12 907 as at Q3 2017). The accumulated funds covered average monthly claims by 6 months compared to 5 months reported for the industry as at Q3 2017.

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