

PROFMED MEDICAL SCHEME (Profmed): GCR RATING DECEMBER 2017

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Profmed as reviewed in July 2018 (in respect of 2017). Profmed which was established in 1959 is administered by a wholly owned subsidiary of the Professional Provident Society (PPS). It is a restricted scheme catering exclusively for professionals holding at least a 4 year or post graduate degree.

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

- Solvency level remains strong at 53% and is expected to remain strong.
- Earnings capacity is sound and together with strong reserves and investment income it continues to assist in absorbing the net healthcare deficits.
- The risk pool is fairly stable and benefit design caters for the elevated age profile of members.

2. Membership Base

- Principal members increased by 2.6% to 32 621 and beneficiaries increased by 1.7% to 70 192.
- Market share of closed scheme membership stood at 2%.
- The average beneficiary age is 40.6 years due to a pensioner ratio of 17% but the average age of new members (<35 years) should keep the former fairly constant.

3. Product Line

A brief summary of the 5 traditional options currently on offer is as follows:

- **Pro Pinnacle** : This option provides comprehensive private ward in-hospital cover and extensive chronic and day-to-day cover. The latter are subject to annual limits. In-hospital services are covered at 300% of scheme rate.
- **ProSecure Plus** : Covers in-hospital procedures at 200% of scheme rate and chronic cover and day-to-day benefits are covered over and above the Prescribed Minimum Benefits. Out-of-hospital doctor services are covered at 120% of scheme rate.
- **ProSecure** : Offers in-hospital cover in general wards at 120% of scheme rate. Day-to-day benefits are covered to a limited extent at scheme rate.
- **ProActive Plus** : Also provides hospital cover at 200% of scheme rate. Certain day-to-day benefits are covered from risk while day-to-day basic dentistry is covered at scheme rate.
- **ProActive** : Provides unlimited in-hospital benefits at 120% of scheme rate. Out-of-hospital dentistry is covered at scheme rate.

The results of the plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Pro Pinnacle	5.2	109.6	(29.3)
ProSecure Plus	7.2	112.0	(34.5)
ProSecure	24.5	96.3	(26.9)
ProActive Plus	22.2	75.8	20.0
ProActive	40.9	74.9	26.1
TOTAL	100	90.9	(44.6)

* NPI- Net Premium Income

- The concentration of members on the lower cost options is indicative of young graduates joining and opting for low cost plans
- The overall claims ratio as a percentage of NPI is to 90.9% (2016: 90.6%)
- The total net healthcare deficit was R 44.6 million compared to a R 42.6m deficit in 2016.
- The upper tier plans contracted due to buy downs to more affordable plans.

4. Asset Management

The investment portfolio consists mainly of:

Cash and cash equivalent:	R 149.5m (15.8 %)
Listed equity:	R 396.7m (42.0 %)
Bonds:	<u>R 398.3m (42.2 %)</u>
Total:	R944.5 m

The average investment yield is stated at 7.3% which is below the investment yield objective of CPI +3%. The yield of 20.8% achieved in 2016 was due to the large realised gains in the disposal of investments. A more aggressive investment stance is therefore adopted and approval was granted to invest up to 50% in equities. The investment risk is mitigated by the strong reserve position.

Cash coverage declined to 1.3 months but the tradeable nature of other investments will provide additional liquidity if required.

5. Financial Performance

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

INCOME STATEMENT	(R'millions)		
	2017	2016	2015
Gross premiums	1 532.9	1 364.7	1 217.0
Members' savings contributions	0.0	0.0	0.0
Net premium income	1 532.9	1 364.7	1 217.0
*Claims paid	(1 393.2)	(1 235.8)	(1 095.2)
Gross underwriting surplus	139.8	128.9	121.8
Non-healthcare expenditure	(184.4)	(171.5)	(153.1)
Net healthcare result	(44.6)	(42.6)	(31.4)
Investment and other income	66.8	179.5	66.0
Net surplus for the year	22.3	136.9	34.6
 BALANCE SHEET			
Members' surplus	865.0	805.0	802.3
Members' savings account	0.0	0.0	0.0
Provisions for claims	50.8	46.8	41.0
Other liabilities	53.3	45.5	32.9
TOTAL LIABILITIES	969.1	897.3	876.2
Investments	944.5	873.2	853.8
Debtors, pre-payments and other	24.6	24.1	22.4
TOTAL ASSETS	969.1	897.3	876.2

*Claims paid include managed care expenses.

- Gross average contributions increased by 12.0% to R 1.532 billion due to the average weighted increase in contributions of 10%.
- Total claims increased by 12.8% to R 1.4 billion which resulted in a claims ratio of 90.9% (2016: 90.6%). The average over the last 5 years of 89% is still under the closed scheme industry average of 93%.

- The total delivery cost of 12.0% does not compare favourably with the open scheme industry's 10%. (Comparison to open scheme industry justified as Profmed use a similar operating model).
- Investment income of R 67 m returned to normal levels after the large realised gains in disposals in 2016 which boosted investment income to R 179.3 m.
- The healthcare deficits over the last 3 years were driven by a rise in claims ratios. GCR is of the opinion that the strong reserves provide loss absorption capacity.
- The 2017 net health care deficit of R 44.6m improved to a net surplus of R 22.3 m after investment income.

6. Solvency and Reserves

The statutory funding ratio decreased from 57.3% to 52.5% as the realised gains alluded to above assisted in 2016. Reserves per principal member of R 24 649 (2016: R 24 595) is indicative of the strong reserve levels. The accumulated funds covered average monthly claims by 6.9X (2016: 7.6x) which is well above the closed scheme average of 3.9x.

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