

SIZWE MEDICAL FUND (SMF): DECEMBER 2017

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of SMF as reviewed in July 2018 (in respect of 2017). SMF which was formed in 1978 for black workers who were not provided for under traditional schemes. The target market and product offering has since diversified and the corporate market is the main focus area. The scheme is administered by Sechaba Medical Solutions.

The rating of AA- (changed from A+ rating in 2016) is based on the following key factors:

- Good earnings levels which resulted in a three year net margin average of 4%.
- A strong solvency level of 55% and robust reserve accumulation.
- Membership contracted by 5.6% to 47 218 but the market share of open schemes remained at a stable 2% and a favourable average beneficiary age of 33 was reported.
- The investment portfolio contains limited risk with a holding of 63% in cash and cash equivalents leaving a net cash coverage ratio of 5.3 months.
- A well contained three year claims ratio average of 88%.

2. Membership Base

The decrease in membership of 5.6% saw the number of beneficiaries decreasing 122 938 to 112 910. The latter was due to the loss of a large employer group which shut down operations and retrenchments in other groups.

- The corporate base still comprises 86% of membership and individuals 13.9%.
- The 5 largest employers represent 17% of principal membership and the 3 largest brokers represent 39% of membership.
- The number of beneficiaries decreased by 8.1% to 112 910.

3. Product Line

There are 5 options namely:

- Full Benefit option : Provides unlimited hospital cover at scheme rate but gap cover (to fund difference between actual in-hospital rates and scheme rate) is included. Extensive chronic cover is also provided.
- Affordable Option : Provides unlimited hospital cover at scheme rate and more comprehensive cover on other benefits than the Primary Plan.
- Primary Option : Provides hospital cover at scheme rate.
- Gomomo Option : It provides access to a GP network and doctors within selected doctor networks.
- Hospital Care option : Replaced the Savings care option and provide hospital cover at private hospitals and basic chronic cover.

The results of the various options are summarised below:

Plan	Membership (%)	Claims / NPI (%)	Net healthcare result (R' million)
	Per plan		
Primary Care	46.5	81.6	33.3
Full Benefit	9.4	95.1	(9.5)
Affordable Care	34.9	87.0	14.9
Gomomo	9.1	116.9	(42.3)
Hospital Care	0.1	107.2	(0.4)
TOTAL	100.0	88.0	(4.1)

NPI- Net Premium Income

- Contribution increases averaged 8.9% and coupled with the decrease in membership, gross contributions increased by 3%.
- The claims ratio improved slightly from 88.8% to 88% whilst all options recorded worse claim ratios compared to 2016, except for the Affordable Care option which improved from 92% to 87%.
- The Gomomo option which had the worst claims ratio of 116.9% had a net healthcare deficit of R 42.3 m.
- The overall net healthcare result improved from a R 25.2 m deficit to a R 4.1 m deficit.

4. **Asset management**

The portfolio consists mainly of:

Cash and cash equivalent:	R 919.6 m (63.2%)
Fixed interest:	R 260.3 m (17.9%)
Listed equity:	R 274.2 m (18.9%)
Total portfolio	<u>R 1 454.1 m</u>

- Average investment yield equated to 7.3% (6.9% in 2016).
- The net cash coverage strengthened from 4.7 months in 2016 to 5.3 months.

5. **Solvency and Reserves**

The net healthcare result improved from a R 25.1 m deficit in 2016 to a deficit of R 4.1 m in 2017. The net surplus (which includes investment income) amounted to R 110.1 million (2016: R 75.3million).

The members' surplus to NPI (Net Premium Income) ratio increased from 50.8% to 55.3% and the statutory funding ratio increased from 51.8% to 54.9% which is above the statutory requirement of 25%.

Accumulated funds per principal member rose to R 27 418 and covered average monthly claims by 7.5 months.

6. Financial Performance

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

INCOME STATEMENT	(R' millions)		
	2017	2016	2015
Gross premiums	2 356.6	2 285.4	2 304.8
Members' savings contributions	0.0	(0.7)	(0.2)
Net premium income	2 356.6	2 284.7	2304.6
Claims paid	(2 073.0)	(2 028.6)	(2 035.9)
Gross underwriting surplus	283.5	256.1	268.7
Non healthcare expenditure	(287.6)	(281.3)	(255.0)
Net healthcare result	(4.1)	(25.2)	13.7
Investment income (and other)	114.2	100.5	91.7
Net surplus for the year	110.1	75.3	105.4

BALANCE SHEET	(R'millions)		
	2017	2016	2015
Members surplus	1 303.4	1 160.2	1078.9
Members savings account	0	0.1	0
Provisions for claims	171.5	146.0	116.0
Other liabilities	45.5	62.9	62.2
TOTAL LIABILITIES	1 520.5	1 369.3	1257.1
Investments	1 454.1	1 300.2	1181.6
Debtors , prepayments and other	66.4	69.1	75.5
TOTAL ASSETS	1 520.5	1 369.3	1257.1

- Total net claims increased by 2.2% to approximately R 2 073 million, which leaves the claims ratio at 88%.
- Total operating costs ratio (as % of gross contributions) was 12.2% compared to the industry average of 10%. This amounts to R 212 p.a.b.p.m compared to the open scheme average of R 176.
- The high non healthcare costs were driven by marketing and trustee election campaigns.

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