BANKMED MEDICAL SCHEME (BM)
GCR RATING: DECEMBER 2015

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of BM as reviewed in May 2016 (in respect of 2015). 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 down to 43% (target level remains 40%) to maintain affordability levels. This is backed by a strong earnings capacity and a well contained delivery cost ratio.
- Liquidity levels are adequate although the gross and net cash coverage levels decreased to 3.6 months (5.4 FYE 2014) and 2.1 months (3.6 FYE 2014) respectively.
- The scheme's membership base has been stable which remains a key rating strength. There is some concentration risk owing to the membership weighting derived from 3 large employer groups.
- BM's market share of the closed medical scheme sector remains at 6.6%.

2. Membership Base

- Principal members increased to 107 553 (7.5%) from 2014 and the total number of beneficiaries increased to 216 262. The increase in membership was largely due to the change in regulation pertaining to permanent vs. contractual employment, making more employees eligible for medical aid benefits.
- The three largest banks account for 85% of the scheme's membership, and the largest employer accounted for 32%.
- 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 average principal member's age reduced to a 41.4 years (FY14:41.9) and 60% of members are younger than 40.

3. Product Line

A brief summary of the 6 options on offer are as follows:

- PLUS PLAN:
  Covers in hospital benefits at 300% of scheme rates. Day-to-day benefits are paid from the 24% medical savings account first and then from scheme funds once through the threshold where certain limits apply.

- COMPREHENSIVE PLAN: Provides in hospital benefits at 125% of scheme rate and day-to-day benefits (including pathology and radiology) are first funded from insured limits after which the medical savings account is utilised. The latter comprises a 17.9 % portion.

- TRADITIONAL PLAN:
  Provides in hospital benefits at 125% of scheme rate and day-to-day PMB benefits are covered at 100% through a provider network (only 80% i.r.o. non DSP'S).

- CORE SAVER:
  Comprises of a network plan which covers hospital benefits at scheme rate and out of hospital PMB benefits are controlled by insured limits. Other day–to-day benefits are covered by a medical savings account which is funded by a 14.9% savings contribution.

- BASIC PLAN:
  This capitated plan offers unlimited primary healthcare services consisting of dentists and optometrists subject to a network formulary. Other benefits are subject to plan limits.

- PMB PLAN:
  This is the most affordable option which covers PMB conditions only and no savings plan exists.

  The results of the most popular plans are summarised below

Plan	Membership growth (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Plus plan	(5.4)	120.0	(61.1)
Comprehensive plan	1.7	105.9	(220.1)
Traditional plan	(2.4)	98.3	(30.7)
Core saver	28.5	67.1	83.5
Basic plan	12.6	71.5	67.8
PMB	48.8	32.5	10.4
TOTAL	**7.5**	**96.4**	**(150.3)**

* NPI- Net Premium Income

- The Plus and Traditional plans declined in membership as members downgraded to cheaper options.
- The growth in membership of the Core ,Basic and PMB plans were mainly due to the bulk of new members opting for the mid to low tier options.
- The Comprehensive option accounted for 42% of principal membership and the Basic option for 20% whilst the PMB option hosted 1.9% of the members.
- The Comprehensive, Plus and Traditional options saw their net health care results deteriorated whilst the mid-tier options showed a remarkable improvement.
- The total net healthcare deficit increased from R128 to R150m.
- The net surplus for the year after investment income increased from a R14.8 million deficit to a R43 million surplus.

4. Asset Management

This function is outsourced to external asset managers Investec (mainly non cash), Prudential and Taquanta (mainly cash). The total portfolio of R 2,492 billion consists mainly of:

Cash and cash equivalent:	R 1 112 m	(44.6%)
Local and offshore bonds:	R 665 m	(26.7%)
Listed equity	R 575 m	(23.1%)
Offshore managed	R 140 m	(5.6%)

The average investment yield is stated at 7.8% (up from 4.7%) but including unrealised gains it decreased from 6.5% to 5.8%.

5. Financial Performance

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

	(R'millions)		
	2015	**2014**	**2013**
Gross premiums	3969.5	3575.2	3337.5
Members' savings contributions	(540.6)	(489.7)	(460.2)
Net premium income	3428.8	3085.6	2877.3
Claims paid	(3207.6)	(2874.7)	(2604.8)
Managed care fees***	(81.1)	(75.3)	(71.7)
Transfer arrangements	(15.8)	(16.7)	4.9
Gross underwriting surplus	124.3	118.9	205.7
Non healthcare expenditure	(274.6)	(246.9)	(226.6)
Net healthcare result	(150.3)	(128.0)	(20.9)
Investment income	193.1	113.2	177.9
Net (deficit)/surplus for the year	42.8	(14.8)	157.0

BALANCE SHEET

Members surplus	1916.2	1922.0	1894.8
Members savings account	534.9	470.7	420.3
Provisions for claims	153.1	137.0	120.1
Other liabilities	31.2	39.1	33.7
TOTAL LIABILITIES	2635.4	2568.8	2469.0
Investments	2493.2	2456.7	2347.3
Debtors and prepayments	142.2	112.1	121.7
TOTAL ASSETS	2635.4	2568.8	2469.0

*** (The CMS changed the allocation of managed care fees from administration fees to healthcare expenditure, hence the change reflected above)

- Gross contributions increased by 11% to R4 billion and net contributions by 11% to R3.4 billion.
- Total claims rose by 11% which resulted in a higher claims ratio of 96.4% with the Comprehensive option continue to show an increase in high claims ratio (120%) which will continue to impact on the overall claims ratio.
- Total delivery costs remained at 7% of gross contributions or R106 per average beneficiary per month which is above the closed scheme industry average of R76 .(These numbers are much lower reported in the past due to managed care fees taken out of the equation).
- Net investment income increased sharply from R113m to R193m which assisted in posting the net surplus of R43 m.

6. Solvency and Reserves

- The members' surplus decreased slightly from R 1 922 million to R1916 million.
- The members' surplus to NPI (net premium income) declined from 62% to 56%.
- Statutory solving margin eased from 46% in 2014 to 43% which is well above the statutory requirement of 25%.This decline is owing to an intentional release of excess reserves to subsidise contributions increases.
- Accumulated funds per principal member decreased from R16 433 to R15 687 and covered average monthly claims by a sound 6.1 x (6.7 in 2014).
- The Scheme's reserve position is still deemed to be sound and tracks above the closed scheme industry average.

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