

# HOSMED MEDICAL SCHEME (HM)

## GCR RATING – DECEMBER 2015

### 1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Hosmed as reviewed in June 2016 (in respect of 2015). Hosmed, which was established in 1988 to serve local and provincial government employees, is administered by Thebe Healthcare Administrators. Hosmed has subsequently converted to an open scheme and was placed under curatorship. The latter was lifted on 22 February 2016. Certain civil and criminal cases remain ongoing and recoveries of over R20m is expected.

The rating of A- which is unchanged from 2014 is based on the following key factors:

- The Schemes' new governance structures are viewed positively.
- Solvency metrics are adequate with the statutory level equating to 26.8%.
- Healthy net surpluses were recorded due to a stable claims ratio.
- Liquidity measures measured 1.6 months in cash coverage and 3.5 months if unitised investments are included.
- Membership growth remained negative at -3.5% for the year (-6% In CAGR terms).

### 2. Membership Base

- The number of principal members decreased by 3.5% from 26 891 to 25 937.
- HM's market share of open scheme membership is 1.9%.
- Local government membership decreased to 19 646 which represents 76% of total membership.
- Corporate membership is well diversified and represents 7% of the total membership.
- Intermediary concentration is notable as the three largest brokers account for 46% of the risk pool membership, whilst the largest broker represents 28% of principal membership.
- The average principal member age is 47 years and 31 in respect of beneficiaries.

### 3. Product Line

There were 4 traditional options in 2015:

- Plus Plan : Offers unlimited private hospital cover at scheme rates. Limited day-to-day cover, including GP & Specialist consultations.
- Value Plan : Benefits are similar to that of the Plus Plan but more limitations apply to day-to-day benefits.
- Essential Plan: This capitated option (previously known as the Step Plan) covers essential day-to-day requirements through a provider network. An annual limit of R700 000 per family applies. Members have to choose from a more restricted pool of designated service providers with a concomitant discount on contributions.
- Access Plan : Offers limited day-to-day benefits and members may choose their service providers. Hospital cover is provided at scheme rates and an overall annual limit of R1 million applies.

The results of the various plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Plus Plan	26.6	93.1	(18.2)
Value Plan	57.2	82.8	36.8
Step Plan	16.3	90.7	(3.3)
Access plan	0.0	88.5	(0.3)
<b>TOTAL</b>	<b>100.0</b>	<b>87.0</b>	<b>15.1</b>

\*NPI- Net Premium Income

- The Value Plan represents 57% of the total risk pool.
- The overall claim ratio as a percentage of NPI is 87% (2014: 86.7%)
- The Step plan's claims ratio increased from 83.1% to 90.7%.
- The total net healthcare surplus of R21 million in 2014 decreased to R15.1 million in 2015.

#### 4. Asset Management

The investment portfolio consists mainly of:

Cash and cash equivalent:	R 143.7m (36.0 %)
Bonds/promissory notes:	R 100.8m (25.3 %)
Listed equities	R 80.0m (20.1 %)
Unitised investments	R 74.5m (18.7%)
	<u>R 399.0m</u>

- A gross average investment yield of 3.7% was reported.
- Nett cash coverage increased from 0.9 months to 1.6 months.
- Exposure to bonds and equities increased from 15% to 45%.

#### 5. Financial Performance

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

##### INCOME STATEMENT

	(R'millions)		
	2015	2014	2013
Gross premiums	1 255.6	1187.3	1 096.5
Members' savings contributions	0	0	0
<b>Nett premium income</b>	<b>1 255.6</b>	<b>1187.3</b>	<b>1 096.5</b>
Claims paid	-1 073.4	-1031.3	-930.4
Transfer arrangements	-6.0	17.3	-18.6
**Managed care	-13.4	-15.9	-27.5
<b>Gross underwriting surplus</b>	<b>162.9</b>	<b>157.4</b>	<b>120.0</b>
Non healthcare expenditure	-147.8	-136.6	-124.3
<b>Nett healthcare result</b>	<b>15.1</b>	<b>20.8</b>	<b>-4.3</b>
Investment income (and other)	14.2	17.9	18.0
<b>Nett surplus for the year</b>	<b>29.3</b>	<b>38.7</b>	<b>13.7</b>

##### BALANCE SHEET

Members surplus	330.5	303.1	269.8
Members savings account	0	0	0
Provisions for claims	58.4	52.4	69.6
Other liabilities	26.5	33.4	24.0
<b>TOTAL LIABILITIES</b>	<b>415.4</b>	<b>388.9</b>	<b>363.4</b>
Fixed Assets	1.2	0.5	0.2
Investments	399.0	365.6	341.4
Debtors and prepayments	15.2	22.7	21.8
<b>TOTAL ASSETS</b>	<b>415.4</b>	<b>388.9</b>	<b>363.4</b>

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

- Contribution increases averaged 9% which increased gross contributions to R1.256bn in monetary terms (an overall effective income of slightly under 6%).
- Total overall claims ratio remained stable at 87% which is mainly due to the Value Plan's ratio of 83%.
- Total delivery cost remained at a level of between 11% and 12%.
- A net health care surplus of R15 million was recorded and investment income of R14m realised a net surplus of R29 m.

## 6. **Solvency and Reserves**

The statutory funding ratio stood at 26.8% and accumulated funds per principal member increased to R12 997 (R11 447 in 2014) which covered average monthly claims by 3.7 X.

## 7. **Future Prospects**

Principal membership is expected to increase by 8%. The claims ratio is expected to increase slightly to 90.7% and a net healthcare deficit of R21.7m is budgeted for.

**SEPTEMBER 2016  
HEALTHMAN**