

MEDIHELP

GCR RATING: DECEMBER 2015

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Medihelp as reviewed in June 2016 (in respect of 2015). Medihelp, which was established over 100 years ago, became an open scheme in 1992, after initially serving government employees only. Following 108 years of self-administration they sold its administrative and managed care business to Strata Healthcare Management. The CMS however found the new administrator not to be fit and proper and their accreditation license was not renewed. Medihelp is expected to reincorporate the administration function.

The rating of AA- is based on the following:

- The Scheme has a large and diverse membership base.
- Strong liquidity ratios and a cash coverage of 3.4 months (gross) and 3.2 months (net).
- Solvency is supportive of the rating and the statutory ratio came in at 30%.
- Earning capacity is viewed to be intermediate as high contribution increases saw the claims ratio decrease from 93.1% in 2014 to 88.5% in 2015.

2. Membership Base

- Principal membership decreased 101 908 to 91 947.
- The Scheme's market share of open scheme membership remains at 3.95%.
- Government employee membership represents 18.8% and individuals 62.8% of total membership.
- Corporate membership comprises 18.4% of total membership.
- Individual membership continues to grow, accounting for 60% of the risk pool.
- Intermediary concentration is notable as the three largest brokers account for 31% of the risk pool membership and the largest broker represents 25% of principal membership.
- The average principal member age equated to 49 years and 37 years for beneficiaries.

3. Product Line

There were 7 options in 2015 namely:

- Medihelp Plus : Provides unlimited private hospital cover (at scheme rate) and extensive day-to-day and chronic benefits.
- Dimension Elite : Provides unlimited private hospital cover at scheme rates. Day-to-day benefits are pooled with sub-limits per category of claim.
- Dimension Prime 3: Provides unlimited private hospital cover with a reduction in premium if a network hospital is used. Pooled day-to-day benefits up to R4 400 are available.
- Dimension Prime 2: Offers unlimited private hospital cover. Day-to-day benefits are only funded out of the medical savings account.
- Dimension Prime 1: Private Hospital cover with no limit, but non-PMB procedure co-payments may apply. Day-to-day benefits are packaged to suit different needs.
- Necesses : Offers an affordable network option, with contributions based on income. Access to private healthcare providers is available through a network.
- Unify : Targets younger members and offers unlimited hospital cover and day to day benefits are funded from a savings account.

The results of the most popular plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Medihelp Plus	4.6	85.4	35.5
Dimension Elite	16.1	89.4	22.8
Dimension Prime 3	33.1	90.4	(17.3)
Dimension Prime 2	17.4	84.1	(0.7)
Dimension Prime 1	17.9	86.4	(17.1)
Necesse	10.9	91.9	(25.6)
Unity	0.0	51.9	1.2
TOTAL	100	88.5	(1.1)

* NPI- Net Premium Income

- The overall claim ratio as a percentage of NPI came to 88.5% (2014: 93.1%).
- The total net healthcare deficit amounted to R1.1m, down from the R197m deficit in 2014.
- All options experienced lower claims ratios due to higher contributions and hospitalisation price control. It did however shoot up to 96.6% for the first 5 months of 2016.

4. Asset Management

The investment portfolio consists mainly of:

Cash and cash equivalent	R 950.7m	(63.22%)
Unit trusts	R 292.0m	(19.4%)
Listed equity	R 3.3m	(0.2%)
Unlisted equity (Curamed)	R 234.1m	(15.6%)
Property	R 25.0m	(1.7%)

The investment in Curamed is seen as a strategic shareholding opportunity in this hospital group. The gross average investment yield is stated at 6.2%.

5. Financial Performance

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

INCOME STATEMENT	(R'millions)		
	2015	2014	2013
Gross premiums	3 878.7	3 742.9	3 468.4
Members' savings contributions	-56.5	-114.9	-89.6
Net premium income	3 822.2	3 628.0	3 378.9
Claims paid	-3 309.0	-3 303.0	-3 081.7
Transfer arrangements	3.5	1.1	11.2
** Managed care	-75.4	-75.5	-68.2
Gross underwriting surplus	441.2	250.6	240.1
Non healthcare expenditure	-442.4	-447.6	-383.2
Net healthcare result	-1.1	-197.0	-143.1
Investment income (and other)	105.6	187.7	73.9
Net surplus/-deficit for the year	104.5	-9.2	-69.2

BALANCE SHEET

Members surplus	1 368.3	1 253.9	1 279.5
Members savings account	42.6	55.0	43.6
Provisions for claims	113.0	116.5	117.6
Other liabilities	89.0	91.0	127.1
TOTAL LIABILITIES	1 612.8	1 516.4	1 567.9
Fixed Assets	0.1	0.2	27.6
Investments	1 505.2	1 388.1	1 393.4
Debtors and prepayments	107.5	128.1	146.9
TOTAL ASSETS	1 612.8	1 516.4	1 567.9

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

- Average Gross premium income increased by 4% despite the 12% average annual contribution increase.
- Total claims increased by a mere 0.2% to R3.309bn which resulted in a claims ratio of 88.5%.
- Total delivery cost ratio is 11% and amounts to R185 (R168 in 2014) per beneficiary per month
- The healthcare deficit of R1m is well below the R504m experienced in the 3 year period 2012 to 2014.
- The net surplus stood at R104.5 m after investment income.

6. Solvency and Reserves

Accumulated funds stood at R1.169bn and the members' surplus increased by 9% to R1 368 bn.

The statutory funding ratio stood at 310 which is above the statutory requirement of 25%.

Reserves per principal member increased to R12 669 (R10 403 in 2014) and covered average monthly claims by 4.1 x.

7. Future Prospects

Contribution increases for 2016 is budgeted at R 4 106 bn and claims are expected to come in at R3623 bn. The claims ratio is expected to increase to 90.4% and a healthcare deficit of R84m is expected. Actual results for the first 5 months of 2016 revealed a net healthcare deficit of R120m.

**SEPTEMBER 2016
HEALTHMAN**