DISCOVERY HEALTH MEDICAL SCHEME (DH): 2015

1. Introduction

GLOBAL CREDIT RATING CO.'s (GCR) latest credit rating (as at April 2016) in respect of 2015 of DH is unchanged at AA+ which is the highest rating a medical scheme can be accorded. The rating is mainly based on the following:

- DH remains the market leader in the open schemes market with a 54% market share based on principal membership mainly due to strong branding, comprehensive plan options and their Vitality wellness programme.
- Solid reserve accumulation over the past 3 years saw the solvency ratio increased to 26%.
- Claims ratio remained below the industry average due to ongoing risk management procedures.
- Investment strategy remained conservative with cash and equivalent instruments amounting to 64% of total investments.
- Member pool remains well diversified and the average member and beneficiary age profile remained stable at 44 and 34 years respectively.

2. Membership Base

- Principal membership base increased by 3% to 1 267 877 and the total number of beneficiaries increased by 2.2% to 2 691 852.The increase in membership in the open medical scheme membership increased by only 1.4%.
- Membership retention stood at 89% which is assisted by the Vitality loyalty program with 49% of all members participating in Vitality which causes members to generally live a healthier life style.
- Corporate and individual market segments represented 64% and 34% of the risk pool.
- The largest employer group represents a mere 1% of total membership and the 10 largest groups only represent 4%.
- Pensioner ratio remains at a healthy 8%.
- The three largest intermediary houses are responsible for 20% of principal members.

3. Product Line

There are 16 options which could be summarised as follows:

- **Executive Plan**
  Targets the high income group and offer most generous limits (300% for In-Hospital procedures). Day-to-day benefit cover is extended through the threshold benefit which commences once a member's day-to-day expenses have accumulated to a predetermined threshold.
- **Comprehensive Series**
  Offers unlimited hospital cover and a savings account for day to day benefits. Day-to-day benefit cover is extended through the threshold benefit which commences once a member's day-to-day expenses have accumulated to a predetermined threshold.
- **Priority Series**
  Benefit structure is similar to comprehensive series with the exception of the threshold benefit which is limited (R10 180 for member and R7 250 per adult dependant and deductibles for certain procedures).
- **Saver Series**
  Provides unlimited hospital cover (in hospital procedures are covered at scheme rate on Essential options and 200% of scheme rate on the Classic options). Day-to-day benefits are limited to the amount available in the medical savings account.

- **Core Series**
  Only covers hospitalisation and chronic medication. No savings facility is available to cover day-to-day benefits.
- **Key Care Series**
  Network hospitals and specialists have to be used. The Core option does not cover day-to-day benefits whereas the Plus option provides day-to-day cover through network service providers. Contributions are based on income.
  The new Key Care Access Plan covers emergencies and childbirth only in network private hospitals. Other admissions are covered via the State facility network. Day-to-day benefits are also provided through network service providers.

  A new option (Smart Plan) was introduced in 2016.

All options excluding the Key Care and Executive options have sub categories. Classic plans provide more extensive cover (e.g. 200% of medical aid rate for in hospital services) compared to the Essential plans (100% of medical aid rate for in hospital services). The Delta options are offered at discounted contribution rates but network hospitals must be used. Coastal plans are only offered on the Saver and Core series and if coastal network hospitals are not used a 30% co-payment applies.

The four largest options were Key Care Plus, Classic Saver, Coastal Saver and Classic Comprehensive which represent 66% of membership.

The Coastal and Classic Saver Plans reported the highest growth rates (5.6% and 8.6% respectively).

Main statistics are reflected below:

Plan	Membership growth (%)	Claims/NPI ratio (%)	Net healthcare result (R'm)
Executive	-3.6	133.2	-327.9
Classic Comprehensive	-4.8	99.4	-706.2
Essential Comprehensive	-9.8	82.8	84.8
Classic Priority	-2.5	81.8	274.3
Essential Priority	-11.1	64.5	69.7
Classic Saver	5.2	75.6	836.0
Essential Saver	11.0	65.5	447.1
Coastal Saver	4.5	85.8	-110.7
Classic Core	0.4	72.6	252.6
Essential Core	11.6	70.4	116.0
Coastal Core	3.9	82.7	12.8
Key Care Plus	6.6	99.5	-529.5
Key Care Core	-0.7	51.6	77.6
Key Care Access	-1.2	64.2	10.2
TOTAL	**3.0**	**86.1**	**507.0**

NPI- Net Premium Income

Due to a change in reporting requirements managed care fees are now included in claims.
The Scheme's net healthcare surplus decreased from R753 million in 2014 to R507 million in 2015. There were only 4 options which had negative net healthcare results whilst the core and saver plans remained the stable options albeit with slightly raised claims ratios.

Delivery costs increased by 8.36% but the delivery cost ratio reduced slightly to 10.2% which amounts to R157 per month per average beneficiary.

4. Asset Management

The Scheme's investment strategy aims to provide adequate liquidity to meet ongoing liabilities and to maximise returns over the long term whilst assuming a minimal degree of risk.

Total investments amounted to R17 199.7 billion of which R10 991.5 billion (64%) was invested in cash and cash equivalents. The balance comprises of equities (8.2%) and bonds (28.2%). The average investment yield (excluding unrealised gains) was reported at 6.1% for 2015 and 5.6% if investments and interest attributable to members' medical savings trust accounts are excluded.

5. Financial Performance

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

	(In R'million)		
	2015	2014	2013
Gross premiums	49 760	44 905	40 464
Member savings	(9 693)	(8 794)	(7 954)
Net premiums	**40 067**	**36 111**	**32 510**
Claims	(32 748)	(29 174)	(26 090)
Transfer arrangements(claims provision/risk)	(450)	(316)	(140)
Managed care fees	(1 306)	(1 201)	(1 101)
Gross underwriting surplus	**5 563**	**5 419**	**5 178**
Non healthcare expenses	(5 056)	(4 666)	(4 318)
Net healthcare result	**507**	**753**	**860**
Investment + other income	763	667	539
NET SURPLUS	**1 270**	**1 420**	**1399**
BALANCE SHEET			
Members surplus	12 929	11 652	9 970
Members savings accounts	3 737	3 251	2 777
Provision for claims	985	846	812
Other liabilities	1 182	1 031	974
TOTAL SURPLUS + LIABILITIES	**18 833**	**16 780**	**14 533**
Total investments	17 200	15 174	13 033
Debtors + pre-payments	1 633	1 606	1 500
TOTAL ASSETS	**18 833**	**16 780**	**14 533**

- Gross contributions increased by 11% to R49.8 billion
- The claims ratio of 86.1% is under the open scheme average of 89.3%. This is due to risk management, negotiations with service providers and fraud detection/prevention.
- Delivery costs (which now excludes managed care cost) increased by 8.3% which translates to a 10.2 % cost to GPI ratio, compared to 10.4% in 2014. The open scheme average is 10.3%.
- Delivery costs amounts to R157 per beneficiary per month compared to the R156 industry average.
- The net healthcare surplus amounts to R507 million and after investment income of R762 million, the scheme's net surplus amounted to R1 269 million.

6. Solvency and Reserves

- Total cumulative net surpluses (incl. unrealised gains) over the 5 year period 2011 to 2015 amounted to R5.7 billion which represents a CAGR of 15% in accumulated funds.
- The statutory funding ratio increased from 25.8% to 26% which ensures statutory compliance.
- Reserves per principal member increased from R9 465 to R10 197. The industry average is R11 027.
- Coverage of accumulated funds over monthly claims remained at 4.7 times.

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