

MEDSHIELD MEDICAL SCHEME (MMS): GCR RATING DECEMBER 2016

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of MMS as reviewed in June 2017 (in respect of 2016). MMS which was established in 1996 (after the amalgamation of Universal, Medicaid and Medicare medical schemes) is self-administered. Oxygen Medical scheme merged with Medshield on 1/10/2010 and after Gen-health Medical Scheme's demise most of their former members joined Medshield without any reserves being transferred. The scheme's market share of the open scheme industry equates to 3.1%.

The rating of AA- (which is unchanged from 2015) is based on the following key factors:

- The Scheme's large membership base is regarded as a rating positive and a positive growth in membership is expected (a 3.5% growth year to date in 2017 has already been reported).
- Solvency level was very strong at 52% and net cash coverage increased from 1 month to 4 months.
- Earnings capacity is reported as adequate and a large reserve base supports a degree of operational loss absorption and strong investment inflows assists to sustain adequate net margins.
- There was a notable deterioration in the age profile.

2. Membership base

- Principal members decreased by 2% to 73 390 and the number of beneficiaries was stated as 151 420.
- MMS market share of open scheme membership decreased from 3.2% to 3.1%.
- Government employee membership represents 29.5% of total membership and corporate membership stood at 26.8% whilst individuals made up the balance of 43.7%.
- Intermediary concentration is notable as the two largest brokers represent 26% of the risk pool membership.
- The average age of beneficiaries remained stable at 38 years and the pensioner ratio increased from 19.2% to 19.7%.

3. Product line

A brief summary of the 7 options currently on offer is as follows:

- **Medibonus** : This traditional option offers comprehensive hospital cover. Limited day-to-day cover and annual limits to chronic medication apply.
- **Mediplus** : Similar to Medibonus but unlimited hospital cover is available through a hospital network.
- **Medivalue** : Offers unlimited major medical cover with stated day-to-day benefits.
- **Premium Plus** : Unlimited hospital cover at a hospital of choice (certain procedures are covered at a higher rate). Day-to-day benefits are covered from members' savings accounts.
- **MediSaver** : A new generation option with unlimited in-hospital cover (with extended out-of-hospital maternity benefits). Day-to-day benefits are funded via a medical savings account.
- **MediCore** : Offers in-hospital benefits only through a network of hospitals.
- **MediPhila**: A low cost option which caters for the low income groups.

The results of the plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Mediplus	36.2	90.4	1.3
Medivalue	33.8	92.0	(44.4)
Medibonus	6.5	104.4	(33.4)
MediPhila	1.2	75.0	0.3
MediCore	8.1	92.8	(5.3)
MediSaver	10.2	99.7	(28.2)
Premium Plus	4.0	114.6	(33.6)
TOTAL	100	94.8	(143.2)

*NPI- Net Premium Income

- The overall claims ratio as a percentage of NPI is to 94.8% (2015: 94.7%) compared to the open scheme average of 91%.
- The total net healthcare deficit increased from R113.9 million in 2015 to R143.2m in 2016.
- The majority of members (70%) belong to the MediPlus and MediValue options.

4. Asset management

The investment portfolio consists mainly of:

	2016	2015
Cash and cash equivalent:	R 948.9m (47.1%)	R 406.1m
Listed equity:	R 673.7m (33.4%)	R 720.0m
Interest securities:	R 392.9m (19.5%)	R 877.9m

The total portfolio came to R2.015 billion rand. The managed fund component now comprises 53% of the total portfolio compared to 80% in 2015. Cash and cash equivalents increased by 26.8% and the investment objective remains CPI +4%.

The average investment yield is stated at 8.3%.

5. Financial performance

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

INCOME STATEMENT	(R'millions)		
	2016	2015	2014
Gross premiums	2 793.1	2 703.2	2 600.7
Members' savings contributions	(112.1)	(-115.2)	(-104.3)
Net premium income	2 680.9	2 588.0	2 496.4
** Claims paid	(2 540.8)	(2 452.2)	(2 310.7)
Gross underwriting surplus	140.1	135.9	185.7
Non healthcare expenditure	(283.3)	(249.8)	(263.0)
Net healthcare result	(143.2)	(113.9)	(77.3)
Investment and other income	158.8	157.8	136.9
Net surplus for the year	15.7	43.9	59.6

BALANCE SHEET

Members' surplus	1 638.7	1 626.8	1 606.3
Members' savings account	146.7	138.6	126.5
Provisions for claims	103.3	114.7	125.5
Other liabilities	145.6	144.0	142.5
TOTAL LIABILITIES	2 034.3	2 024.1	2 000.9
Investments	2 015.5	2 004.0	1 978.8
Debtors, prepayments and fixed assets	18.9	20.0	22.1
TOTAL ASSETS	2034.3	2 024.1	2 000.9

** Due to a change in reporting requirements managed care fees are now included in healthcare expenditure.

- Contributions increases averaged 9.6% which brought about a mere increase of 3% in gross premiums.
- Total claims increased by 3.6% to R2.540 billion from R2.452billion.
- Total delivery cost ratio is 10.1% which is under the open scheme average of 10.4%.
- The healthcare deficit of R143 was boosted by investment income and other income of R158m to a net surplus of R15.7m.

6. Solvency and reserves

The members' surplus grew by a mere 0.7% to R1.638 bn, and the statutory funding ratio remained unchanged at 52%. A degree of solvency dilution is expected as reserves are used to make contributions more affordable. Accumulated funds per principal member increased to R19 831 from R19 195 which is well above the industry average. The accumulated funds covered average monthly claims by 7X.

7. Future prospects

A membership growth of 3% is expected and a net deficit of R35.9m is projected for 2017. A net claims ratio of 95% is expected and the non- healthcare expense ratio is expected to come in at 10.6%. As at 03/2017 the net deficit stood at 29.4 million

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