

MOMENTUM 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 is administered by MMI Health which is a wholly owned subsidiary of MMI Holdings Ltd being the holding company of Momentum Group Ltd.

The rating of AA is based on the following key factors:

- MMS' established market position which represents a 5.9% market share of the total open scheme industry and recorded a 7.3% growth in a membership. An unchanged favourable average beneficiary age of 32.7 years was registered. The amalgamation with Metropolitan Medical Scheme in 2017 boosted principal membership by 1800 principal members.
- A sound earnings capacity was supported by a well contained claims ratio of 88% which was elevated from 86% the previous year and the 84% average of the previous 4 years).
- Statutory solvency level moderated to 27% (29%: 2016) and is expected to decrease to 25% due to membership growth.
- The sizable investment portfolio provides adequate liquidity ensuring a net cash coverage ratio of 1.8 months.

2. Membership Base

- Principal members increased by 7.3% to 138 109. Total beneficiaries increased from 248 172 to 266 206.
- Individual members comprised 68% of the risk pool and the 32% corporate pool is well diversified with the largest employer accounting for 4% of total principal members. The 5 largest accounts represent only 7% of total risk members.
- Intermediary concentration is notable as the three largest brokers (excluding in house brokers) comprise 11% of the risk pool membership, whilst the largest represents 4% of principal membership.
- The average age of beneficiaries stood at a favourable 32.7 years and a pensioner ratio of 8.2% was reported.

3. Product Line

There are 6 comprehensive options namely:

INGWE OPTION

Covers primary care within hospital benefits through any hospital, through a limited private hospital network or state hospitals. An overall annual limit of R1.19million per family at scheme rate applies. Chronic and day-to-day benefits are provided through the Ingwe Primary Care network.

ACCESS OPTION

Unlimited private hospital cover through network hospitals and day-to-day benefits are provided through the Access Primary Care Network.

CUSTOM OPTION

Provides unlimited private hospital benefits and day-to-day benefits are funded by the member or from the Health Saver facility. Members may select their in and out of hospital providers which provide discounts on contributions payable. Procedures in respect of Major Medical Benefits would normally incur a co-payment.

INCENTIVE OPTION

Hospital cover is provided at 200% of medical scheme rates and limited day-to-day benefits. Contributions include a 10% savings component for day-to-day benefits. In hospital and chronic benefit providers may be selected which reduces monthly contributions. Chronic cover is more comprehensive than on the Custom option.

EXTENDER OPTION

The same benefits as the Incentive Option are provided as well as extensive chronic benefits which covers 62 conditions. The savings component makes up 25% of contributions.

SUMMIT OPTION

This traditional option provides members with unlimited private hospital cover at 300% of medical scheme rate and extensive day-to-day benefits with certain sub limits.

The following complementary products are also provided:

Health Platform: Provides preventative care benefits (e.g. early detection tests and certain maternity benefits).

Health Saver: Allows members to make additional contributions to their savings allowance.

Health Returns program: Members are financially rewarded for having health assessments, taking their chronic medication and being active.

The results of the most popular plans are summarised below:

Plan	Membership (%)	Claims / NPI (%)	Net healthcare result (R' million)
Ingwe option	27.9	89.2	(13.8)
Access option	1.8	74.8	10.8
Custom option	40.1	82.8	19.4
Incentive option	25.6	92.8	(96.0)
Extender option	4.1	92.2	(9.2)
Summit option	0.5	92.1	1.2
TOTAL	100	88.1	(87.5)

NPI- Net Premium Income

- The Ingwe option experienced a significant increase in their claims ratio from 78.0 to 89.2 which was ascribed to the pricing strategy of the option.
- The mid-tier options dominate the options mix with the combined Custom and Incentive options representing 65.7% of total membership.
- Total claims rose by 14.6% to R3.024 bn in 2016 but the total claims ratio of 88.1% is still below the open scheme average.

4. Asset management

The investment portfolio consists mainly of:

Cash	R 80.9 m	(5.7%)
Money market assets	R 485.3 m	(34.2%)
Interest securities	R 429.5 m	(30.3%)
Listed equity	R 422.4 m	(29.8%)

Total investments amounted to R1 418 m and 3 different asset managers are used to achieve the investment objective of CPI plus 5% over a 3 year rolling period.

The gross average investment yield is stated at 5.0% (4.9% in 2015).

5. Financial Performance

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

INCOME STATEMENT	(R'millions)		
	2016	2015	2014
Gross premiums	3 693.6	3 331.0	2 932.1
Members' savings contributions	(262.3)	(249.3)	(240.4)
Net premium income	3 431.3	3 061.7	2 691.7
**Claims paid	(3 024.4)	(2 512.9)	(2 272.7)
Gross healthcare result	406.9	423.4	418.9
Non healthcare expenditure	(494.4)	(435.5)	(382.4)
Net healthcare result	(87.5)	(12.2)	36.5
Investment income (and other)	62.9	58.4	51.8
Net surplus/(deficit) for the year	(24.6)	46.2	88.3
BALANCE SHEET			
Members surplus	992.0	972.7	924.1
Members savings account	119.2	108.5	102.4
Provisions for claims	199.2	204.9	160.3
Other liabilities	163.6	76.5	103.7
TOTAL LIABILITIES	1474.1	1362.6	1 290.5
Investments	1418.1	1 324.0	1 260.0
Debtors and prepayments	56.0	38.6	30.5
TOTAL ASSETS	1474.1	1 362.6	1 290.5

** (In 2015 the CMS changed the allocation of managed care fees from administration fees to healthcare related expenditure).

- Net premium income increased by 12% to R3.431bn.
- A competitive average annual contribution increase of 7.9% was maintained.
- Total claims rose by 20% to R3.02bn and total delivery costs increased by 13.5% which represents a 13.4% delivery cost ratio compared to the open scheme industry's 10.2%.
- The delivery cost per beneficiary increased to R155 (2015:R146) which is below the industry average of R167.

6. Solvency and Reserves

The net deficit of R24.6 m and unrealised gains caused a slight increase in the members' surplus from R972.7m to R992.0m.

The statutory funding ratio dropped from 29.4 to 26.9% which is above the statutory requirement of 25%.

Accumulated funds per principal member decreased to R7 183 (R7 559 in 2015) and covered average monthly claims by 3.9 x compared to the open scheme industry average of 4.2x.

7. Future Prospects

A net healthcare surplus of R509 m and a net surplus of R29.2m are budgeted for 2017. The statutory solvency margin is therefore expected to come in at 25.2% with the number of principal members increasing from 138 1094 to 149 629.