

SIZWE MEDICAL FUND (SMF): DECEMBER 2015

1. Introduction

GLOBAL CREDIT RATING CO.(GCR) recently published its latest credit rating of SMF as reviewed in July 2016 (in respect of 2015).SMF which was formed in 1978 for black workers who were not provided for under traditional schemes is administered by Sechaba Medical Solutions.

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

- Intermediate earnings levels resulted in a R105 million net surplus.
- A strong solvency level of 48% has been maintained and intermediate liquidity measures brought about a net cash coverage of 2 months.
- Membership increased by 3% to 52 317 which is viewed as moderately large.
- The investment portfolio contains limited risk with holdings in equities and bonds amounting to 36%.

2. Membership Base

The increase in membership saw the number of beneficiaries increased from 120 005 to 125 366. The market share therefore dropped to 2.3% from 2.96%

- The corporate base still comprises 85.8% of membership and individuals 14.1%.
- Three brokers are responsible for 35% of membership and the largest broker represent 16%.
- Average age of principal members is 46 and that of beneficiaries stood at a more favourable 32.7 years.

3. Product Line

There are 5 options namely:

- Full Budget: Provides unlimited hospital cover at scheme rate but gap cover (to fund difference between actual in hospital rates and scheme rates) is included. Extensive chronic cover is also provided.
- Affordable Option: Provides unlimited hospital cover at scheme rate and more comprehensive cover on other benefits than the Primary Plan.
- Primary Option: Provides hospital cover at scheme rate with an overall annual limit of R1 million per family.
- Gomomo Option: This option which was introduced in 2015 replaced the Basic Care option. It provides full cover at selected network hospitals and access to doctors in a network.
- Savings Option: This new generation option includes a savings portion at 15% of monthly contributions and provides cover at scheme rates.

The results of the most popular plans are summarised below

Plan	Membership (%)	Claims / NPI (%)	Net healthcare result (R' million)
	Per plan		
Primary Care	44.2	81.2	40.1
Full Budget	11.4	92.8	1.4
Affordable Care	36.5	91.1	(14.0)
Gomomo Care	7.8	101.0	(14.1)
Savings Care	0.1	50.3	0.3
TOTAL	100.0	88.3	13.7

NPI- Net Premium Income

- Contribution increases averaged 7% and coupled with the marginal increase in membership, gross contributions increased by 5%.
- The claims ratio deteriorated from 82% to 88% whilst all options recorded worse claim ratios compared to 2014, whilst Gomomo recorded the worst ratio of 101%.
- Primary Care is the largest option (44% of membership) whilst the Gomomo option had an increase of 3500 members.

4. Asset management

The investment advisor is Sele Kane Asset Consultants and the investment mandate is CPI +4%.

The portfolio consists mainly of:

Cash and cash equivalent:	R 333.1m (28.2%)
Fixed interest:	R 212.0m (17.9%)
Listed equity:	R 208.7m (17.7%)
* Cash portion (managed funds)	R 427.6m (36.2%)
Total portfolio	<u>R 1 181.5m</u>

- * The Cash holdings in the managed fund portion pushed the net cash coverage up to 4.5 months.
 - Average investment yield equated to 7.5% (7.8% in 2014)
 - Equity exposure increased marginally to 17.7% of total holdings and bonds increased from 15.4% to 17.9%.

5. Solvency and Reserves

The Net healthcare result decreased from R 156m in 2014 to R 13.7m in 2015. The net surplus (which includes investment income) amounted to R105 million (2014: R236million).

The members' surplus to NPI (Net Premium Income) ratio increased from 45.3% to 46.8% and the statutory funding ratio increased from 46% to 48% which is above the statutory requirement of 25% and the industry average of 28.6%.

Accumulated funds per principal member rose to R21 201 (R19 803 in 2014) and covered average monthly claims by 7 months.

6. Financial Performance

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

INCOME STATEMENT	(R' millions)		
	2015	2014	2013
Gross premiums	2304.8	2186.8	2233.0
Members' savings contributions	(0.2)	0	0
Net premium income	2304.6	2186.8	2233.0
Claims paid	(1959.6)	(1752.0)	(1834.8)
Transfer arrangements	(29.5)	5.3	(4.4)
** Managed care	(46.7)	(46.2)	(48.8)
Gross underwriting surplus	268.7	393.9	345.1
Non healthcare expenditure	(255.0)	(237.9)	(227.1)
Net healthcare result	13.7	156.0	118.0
Investment income (and other)	91.7	79.7	105.4
Net surplus for the year	105.4	235.8	223.3

BALANCE SHEET	(R'millions)		
	2015	2014	2013
Members surplus	1078.9	991.3	757.5
Members savings account	0	0	0
Provisions for claims	116.0	86.5	91.8
Other liabilities	62.2	57.6	50.6
TOTAL LIABILITIES	1257.1	1135.4	899.9
Investments	1181.6	1073.0	828.9
Debtors , prepayments and other	75.5	62.4	71.0
TOTAL ASSETS	1257.1	1135.4	899.9

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

- Total net claims increased by 11.8% to approximately R1959 million, which leaves the claims ratio at 88%.
- Total operating costs ratio (as % of gross contributions) was 11% compared to the industry average of 13%.
- A third consecutive net healthcare surplus was recorded albeit on the low side compared to the combined R 274 million in the prior two years.

7. Future Prospects

- Membership is expected to grow by 1% in 2016.
- The claims ratio is expected to increase to 89.4% resulting from an expected increase in claims to R2191.6 million.
- Accordingly the scheme has budgeted for a net healthcare deficit of R43.7 million.