

PROFMED MEDICAL SCHEME (Profmed): GCR RATING DECEMBER 2015

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Profmed as reviewed in July 2016 (in respect of 2015). Profmed which was established in 1959 is administered by a wholly owned subsidiary of the Professional Provident Society (PPS). It is a restricted scheme catering exclusively for professionals holding at least a 4 year or post graduate degree. It therefore competes in the open scheme market place.

The rating of AA- (which is unchanged from 2014) is based on the following key factors:

- The net cash coverage of average claims equates to 2 months and a sizeable bond portfolio supports liquidity reserves.
- Solvency level remains strong at 53% and is expected to remain above 50%.
- Earnings capacity is sound and together with strong reserves and investment income it assisted in absorbing the 3 percentage point spike in the claims ratio.
- Continued membership losses and an increase in the age profile of members is noted and management's focus is on member retention.

2. Membership Base

- Principal members increased by 5.9% to 30 367 and beneficiaries increased by 2.3% to 67 079.
- Market share of closed scheme membership stood at 1.9%.
- Eligibility criteria only allow for University and Technicon graduates at a certain NQF level.
- Intermediary concentration is negligible as the three largest brokers represent only 3% of the risk pool membership.
- The average principal member age is 49.7 years.

3. Product Line

A brief summary of the 5 traditional options currently on offer is as follows:

- Pro Pinnacle : This option offers comprehensive private ward in hospital cover and extensive chronic and day to day cover. The latter are subject to annual limits. In hospital services covered at 300% of scheme rate.
- ProSecure Plus : Covers in hospital procedures at 200% of scheme rate and chronic cover for 39 conditions with limits (compared to the standard 26). Day to day benefits are also covered subject to annual limits.
- ProSecure : Offers in hospital cover at scheme rates and 39 chronic conditions with limits. Day-to-day benefits are covered to a limited extent.
- ProActive Plus : Also provides hospital cover at scheme rates and chronic conditions limited to the standard 26 conditions. Only day to day basic dentistry covered subject to Profmed rates.
- ProActive : Provides limited in hospital benefits. Day-to-day benefits also only cover basic dentistry at scheme rates.

The results of the plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Pro Pinnacle	6.2	116.7	(40.1)
ProSecure Plus	8.3	91.1	0.5
ProSecure	26.3	97.7	(31.4)
ProActive Plus	21.4	72.6	17.9
ProActive	37.8	73.0	21.6
TOTAL	100	90.0	(31.4)

* NPI- Net Premium Income

- The concentration of members on the lower cost options is indicative of young graduates joining and opting for low cost plans
- The overall claims ratio as a percentage of NPI is to 90.0% (2014: 86.7%)
- The total net healthcare deficit was R31.4 million compared to a R17.2m surplus in 2014.

4. Asset Management

The investment portfolio which is overseen by Investec Asset Managers consists mainly of:

	2015	2014
Cash and cash equivalent:	R 176.4m (20.7%)	R 179.7m
Listed equity:	R 391.8m (45.9%)	R 378.2m
Bonds:	R 285.6m (33.4%)	R 283.3m

The gross average investment yield is stated at 8.5%, and 7.4% if unrealised gains/losses are included.

To achieve the investment yield objective of CPI +3% a more aggressive investment stance was adopted.

5. Financial Performance

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

INCOME STATEMENT

	(R'millions)		
	2015	2014	2013
Gross premiums	1217.0	1111.9	1016.3
Members' savings contributions	0	0	0
Net premium income	1217.0	1111.9	1016.3
Claims paid	(1082.1)	(939.6)	(868.5)
Transfer arrangements	5.8	(7.7)	(1.7)
Managed care fees **	(18.9)	(16.4)	(22.6)
Gross underwriting surplus	121.8	148.1	123.5
Non healthcare expenditure	153.1	130.9	110.7
Net healthcare result	(31.4)	17.2	12.8
Investment and other income	66.0	41.3	55.1
Net surplus for the year	34.6	58.6	67.9

BALANCE SHEET

Members' surplus	802.3	777.6	683.9
Members' savings account	0	0	0
Provisions for claims	41.0	46.7	39.1
Other liabilities	32.9	38.8	23.5
TOTAL LIABILITIES	876.2	863.1	746.5
Investments	873.4	860.2	744.2
Debtors and prepayments	2.8	2.9	2.3
TOTAL ASSETS	876.2	863.1	746.5

**** Due to a change in reporting requirements managed care fees are now stated alongside healthcare expenditure which will increase claims ratios but a reduce non healthcare costs and the accompanying non healthcare cost ratio.**

- Gross average contributions increased by 9.5% to R1.2 billion due to the 6% membership growth.
- Total claims increased by 14% to R1.1 billion from R2.164 billion which resulted in a claims ratio of 90% (2014:86.7%). This was caused by rising hospitalisation rates and high value claims.

- Total delivery cost ratio increased to 12.6% which equates to an amount of R190 per beneficiary per month (2014:R166).The open scheme industry average is R156 p.b.p.m.
- The healthcare deficit of R31.4m was due to increased claims, but after investment income the net result was boosted to a net surplus of R34.6m.

6. Solvency and Reserves

The statutory funding ratio decreased from 54.9% to 53%. Reserves per principal member were stable at R21 238 (2014: R21 289). The accumulated funds covered average monthly claims by 7.1X (2014:7.6x).

7. Future Prospects

A membership growth of 2% is expected for 2016 and a net surplus of R39m is projected for 2016. A net claims ratio of 90% and the delivery cost ratio of 11.7% is expected.

**SEPTEMBER 2016
HEALTHMAN**