

DISCOVERY HEALTH MEDICAL SCHEME (DH): 2016 FINANCIAL REVIEW

1. Introduction

GLOBAL CREDIT RATING CO.'s (GCR) latest credit rating (as at April 2017) in respect of 2016 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 55% market share based on principal membership. The scheme covers 2.7 million beneficiaries and has shown high membership retention. The average member and beneficiary age profile remained stable at 44 and 34 years respectively.
- A solid reserve accumulation over the past 3 years saw the solvency ratio increased to 26%.
- The claims ratio of 87% was well contained and it resulted in a net healthcare margin of 0.2 % which was supplemented by a 24% increase in investment flows. The net surplus therefore came to R1 billion.
- Statutory solvency levels are around 26% and accumulated funds increased to R14.2 billion.

2. Membership Base

- The principal membership base increased by 2.3% to 1 297 466 and the total number of beneficiaries increased by 1.6% to 2 735 191.
- Membership retention stood at 89% which is assisted by the Vitality loyalty program with 50% of all members participating in Vitality.
- Corporate and individual market segments represented 63% and 35% of the risk pool.
- The largest employer group represents a mere 2% of total membership and the 10 largest groups only represent 6%.
- The single largest broker accounts for 12% of total members and the three largest brokers 22% in total.
- The pensioner ratio remains at a healthy 8.9%.

3. Product Line

There are 16 options which can be summarised as follows:

- **Executive Plan**
Targets the high income group and offers 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. Covers chronic medication for all chronic conditions.
- **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 per member and R7 250 for adult dependants).
- **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 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.
- Smart plan**
 Provides unlimited hospital cover within a network of private hospitals and full cover for contracted in-hospital specialists. Also provides unlimited cover for GP's in a network with a co-payment of R50.

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 Classic Saver (21%), Key Care Plus (18%) Coastal Saver (14%) and Classic Comprehensive (12%) which represent 65% of membership.

Main statistics are reflected below:

Plan	Membership growth (%)	Claims/NPI ratio (%)	Net healthcare result (R'm)
Executive	-3.0	133.9	(350.5)
Classic Comprehensive	-6.3	101.2	(874.5)
Essential Comprehensive	-9.9	84.7	64.2
Classic Priority	-3.8	83.1	240.9
Essential Priority	-10.0	72.1	46.8
Classic Saver	4.5	77.7	770.4
Essential Saver	9.7	66.5	494.9
Coastal Saver	3.4	87.2	(184.6)
Smart plan	n/a	54.6	62.6
Classic Core	-3.5	75.2	222.3
Essential Core	7.8	69.1	150.8
Coastal Core	0.2	85.2	(32.9)
Key Care Plus	3.0	99.4	(579.6)
Key Care Core	0.5	64.5	54.7
Key Care Access	-2.4	54.8	17.0
TOTAL	2.3	87.2	102.5

NPI - Net Premium Income

Net healthcare result = Risk contributions - Claims paid and managed care expenses

There were only 5 options which had negative net healthcare results whilst the core and saver plans remained the stable options albeit with slightly raised claims ratios. The overall claims/NPI ratio of 87% is under the open scheme industry average of 91%

Delivery costs (non-healthcare expenditure) increased by 8.5% but the delivery cost ratio remained at 10.2% which amounts to R169 per month per average beneficiary. The latter two indicators are in line with the open scheme industry average.

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 R 18,807 billion of which R 11,432.4 billion (61%) was invested in cash and cash equivalents. The balance comprises of equities (10.9%) and bonds (28.0%). The average investment yield (excluding unrealised gains) was reported at 6.8% for 2016 and 6.7% 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)		
	2016	2015	2014
Gross premiums	54 056	49 760	44 905
Member savings	(10 430)	(9 693)	(8 794)
Net premiums	43 626	40 067	36 111
**Claims	(38 036)	(34 503)	(30 692)
Gross underwriting surplus	5 591	5 563	5 419
Administration and other expenses	(5 488)	(5 056)	(4 665)
Net healthcare result	103	507	754
Investment + other income	939	762	667
NET SURPLUS	1041	1269	1421
BALANCE SHEET			
Members surplus	14 234	12 929	11 653
Members savings accounts	4 204	3 737	3 251
Provision for claims	1 121	985	846
Other liabilities	1 311	1 248	1 031
TOTAL SURPLUS + LIABILITIES	20 870	18 899	16 781
Total investments	18 807	17 265	15 174
Debtors + pre-payments	2 063	1 634	1 606
TOTAL ASSETS	20 870	18 899	16 781

** Includes managed care expenses

- Gross contributions increased by 8.6% to R54.1 billion and risk premiums by 8.9% to R43.6billion.

6. Solvency and Reserves

- Total cumulative net surpluses (incl. unrealised gains) amounted to R6.4 billion which resulted in total accumulated funds increasing by 10% to R14.2 billion.
- The statutory funding ratio increased from 26.0% to 26.3% which ensures statutory compliance.
- Reserves per principal member increased from R10 197 to R10 971. The industry average is R11 369.
- Coverage of accumulated funds over monthly claims remained at a 4.5 times ratio.