

# **BANKMED MEDICAL SCHEME (BM)**

## **GCR RATING: 2014**

### **1. Introduction**

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of BM as reviewed in May 2014 (in respect of 2013). Bankmed was established in 1914 to service the banking and financial services industry and provides services to over 60 institutions. The rating of AA+ is based on the following key factors:

- BM's has continued to post surpluses resulting in overall total accumulated funds of R1.9 billion and the statutory solvency level was 42%.
- Members' surplus to the Member Premium Income (MPI) ratio and the statutory fund ratio remained favourable with the latter exceeding the statutory level.
- The scheme's membership base has been stable which is normal for a closed scheme. Restructuring in the banking industry could have a negative effect on the membership base.
- BM's market share of the closed medical scheme sector is 6.1% which makes it one of the largest closed schemes in the industry.
- Investment portfolios remain conservative which ensures solid liquidity metrics.

### **2. Membership base**

- Principal members increased to 99 293 (1.2%) from 2012 and the total number of beneficiaries increased to 201 520.
- The three largest banks account for 81% of the scheme's membership, and the largest employer accounted for 29%.
- BM will only allow participating employers (in the industry) to join which offer Bankmed as the sole medical scheme.
- The average principal member's age equated to 41 years and 60% of members fall under the age of 40.

### **3. Product line**

A sixth option was added in 2013. A brief summary of the 6 options are as follows:

- **PLUS PLAN:**  
Covers in hospital benefits at 300% of scheme rates. Day-to-day benefits are paid from the 25% medical savings account first and then from scheme funds once through the threshold where certain limits apply.
- **COMPREHENSIVE PLAN:** Provides in hospital benefits at 125% of scheme rate and day-to-day benefits (excluding pathology) are first funded from insured limits after which the medical savings account is utilised. The latter comprises a 18.5 % portion.
- **TRADITIONAL PLAN:**  
Provides in hospital benefits at 125% of scheme rate and day-to-day PMB benefits are provided through a provider network (only 80% iro non DSP'S).
- **CORE SAVER:**  
Comprises of a network plan which covers hospital benefits at scheme rate and out of hospital PMB benefits are controlled by insured limits. Other day-to-day benefits are covered by a medical savings account which is funded by a 15% savings contribution.

- **BASIC PLAN :**  
This capitated plan offers unlimited primary healthcare services via the Care Cross provider networks of GP's, dentists and optometrists. Other benefits are subject to plan limits.
- **PMB PLAN:**  
This is the most affordable option which covers PMB conditions only and no savings plan exists.

The results of the most popular plans are summarised below

<b>Plan</b>	<b>Membership (%)</b>	<b>Claims / *NPI (%)</b>	<b>Net healthcare result (R'million)</b>
Plus plan	4.7	114.6	-50.2
Comprehensive plan	45.3	94.3	-55.2
Traditional plan	17.1	92.4	-7.7
Core saver	13.4	66.1	43.4
Basic plan	18.6	68.5	44.4
PMB	0.9	20.5	4.5
<b>TOTAL</b>	<b>100</b>	<b>90.4</b>	<b>-20.9</b>

\*NPI- Net Premium Income

- The Plus and Comprehensive plans declined by 7% and 2.1% respectively as members downgraded to cheaper options. The traditional option declined by 6.5%
- Consequently the Core option's membership grew by 11% and the Basic plan by 9%.
- All plans reported improved healthcare results, except for the Basic plan where the surplus decreased from R 52.4m to R 44.4m.
- The Basic plan experienced a decrease of 5% in the claims ratio, whilst the other plans showed a slight improvement.
- The total net healthcare deficit decreased from R79.1m to R21m.
- The net surplus for the year after investment income increased from R31.5million to R157.0million.

#### **4. Asset management**

This function is outsourced to external asset managers (Investec and Taquanta) and the portfolio consists mainly of:

Cash and cash equivalent:	R 1 425 m (60.7%)
Fixed interest:	R 410 m (17.5%)
Listed equity:	R 412.7 m (17.6%)
Offshore managed:	R 99.0 m ( 4.2%)

The average investment yield is stated at 7.7% (up from 5%).

## 5. Financial performance

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

	<b>(R'millions)</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Gross premiums	3337.5	3101.1	2931.5
Members' savings contributions	(460.2)	(429.9)	(412.5)
Net premium income	2877.3	2671.2	2519.0
Claims paid	(2604.8)	(2424.6)	(2307.4)
Transfer arrangements	4.9	(49.7)	0.2
Gross underwriting surplus	277.4	196.6	211.8
Non healthcare expenditure	(298.3)	(275.9)	(267.9)
Net healthcare result	(20.9)	(79.1)	(56.1)
Investment income	177.9	110.5	118.3
Net surplus for the year	157.0	31.5	62.2

### **BALANCE SHEET**

Members surplus	1894.8	1784.9	1668.3
Members savings account	420.3	395.3	355.6
Provisions for claims	120.1	124.7	74.6
Other liabilities	33.7	97.9	87.1
<b>TOTAL LIABILITIES</b>	<b>2469.0</b>	<b>2402.8</b>	<b>2185.5</b>
Investments	2347.3	2299.9	2105.8
Debtors and prepayments	121.7	102.8	79.7
<b>TOTAL ASSETS</b>	<b>2469.0</b>	<b>2402.8</b>	<b>2185.5</b>

- Gross and net contributions increased by 8%.
- Net investment income increased sharply from R111m to R178m which resulted in a net surplus of R157million for the year.
- Total claims rose by 1.1% which resulted in a lower claims ratio of 90.4%.
- Total delivery costs remained at 8.9% of gross contributions. Relative low administration costs were the main contributor to this favourable ratio.

## 6. Solvency and reserves

- The members' surplus increased slightly from R1785 million to R1895 million.
- The members' surplus to NPI (net premium income) remained steady at 66% (2012: 67%).
- Statutory funding was stable at 50% (2012: 49%) which is well above the statutory requirement of 25% and the closed scheme average of 35% as at Q3 of 2013.
- Accumulated funds per principal member rose to R16710 from R15335 and covered average monthly claims by 7.7x (7.3 in 2012).

## 7. Future prospects

A marginal drop in membership for 2014 is expected and the average growth in contributions remains at a modest level of 6.9%.

A net healthcare deficit of R102m is projected for 2014 but budgeted investment income of R106m should result in a net surplus of R3m.

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