

DISCOVERY HEALTH MEDICAL SCHEME (DH): DECEMBER 2011

1. Introduction

GLOBAL CREDIT RATING CO.'s (GCR) latest credit rating (as at 03/2012 in respect of 2011) of DH is AA+ which is the highest rating a medical scheme can be afforded. The rating is mainly based on the following:

- DH remains the market leader in the open schemes market and showed good organic growth and member retention.
- A favourable age risk profile and a claims ratio below the industry norms contributed to positive surpluses and reserves of R7.4 bn.

2. Membership base

- Principal membership base increased by 5.5% to 1 075 866 which represents 49% of total open scheme membership. Other open schemes showed no or little growth (mainly due to job losses and migration of members to GEMS).
- The Key Core option added 112 836 (47%) of new members from 2007 to 2011.
- DH large membership base ensured lower annual contribution increases compared to the open market average and consistency with the options available.
- Member retention remains a priority and incentives like the Vitality lifestyle program assists in achieving it.
- Corporate and individual market segments represented 72% and 26% of the risk pool. Over the last two years membership growth came mainly from the individual segments.
- The largest employer group represents a mere 1% of total membership.
- Average age of principal membership is 43 (less than the industry average) and in terms of beneficiaries it is 33.
- The three largest intermediary houses are responsible for 24% of principal members.

3. Product line

There are 13 options which could be summarised as follows:

- **Executive Plan**
Targets the high income group and offer most generous limits (300% for In-Hospital procedures). Benefits are similar to the Comprehensive Series.
- **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, and deductibles for certain procedures.
- **Saver Series**
Provides unlimited hospital cover and day to day benefits are limited to the amount available in the medical savings account.
- **Core Series**
Only covers hospitalisation and chronic medication.
- **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.

All options excluding the Key Care and Executive options have sub categories. Classic plans provide more extensive cover (eg 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.

Main statistics are reflected below:

Plan	Membership (%)	Claims/NPI ratio (%)	Net healthcare result (R'm)
Executive	1.1%	136.4	(274.2)
Classic Comprehensive	17.3%	97.4	(708.7)
Essential Comprehensive	2.8%	74.9	124.7
Classic Priority	9.0%	74.9	202.6
Essential Priority	0.9%	61.8	43.4
Classic Saver	17.2%	69.1	413.7
Essential Saver	5.9%	61.0	195.0
Coastal Saver	13.6%	75.8	(19.6)
Classic Core	4.6%	64.4	183.9
Essential Core	2.1%	63.8	51.3
Coastal Core	6.5%	72.4	27.3
*Foundation Core	0.1%	89.4	(2.4)
Key Care Plus	17.4%	92.5	(348.9)
Key Care Core	1.4%	56.3	34.3
	100%	82.1%	(77.6)

* Terminated 31/12/2011

NPI- Net Premium Income

The net healthcare deficit of R77.6 million (compared to a budgeted surplus of R300.9 million) stemmed mainly from the following:

- cost of oncology treatment
- increase in pathology costs
- apparent pattern of excessive claiming for out of hospital allied and therapeutic treatments (given the unlimited benefit available on options which provide the above threshold benefits)
- high chronic medication costs

In addressing the issues above, annual limits (on the threshold plans) were introduced on out of hospital allied and therapeutic benefits.

4. **Asset management**

Total investments amounted to R9,260 billion of which R7,591 billion (82%) was invested in cash and cash equivalents. The balance comprises of equities (4.1%) and bonds (13.7%). The average investment yield was reported at 6% for 2011.

5. Financial Performance

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

	(In R'million)		
	2011	2010	2009
Gross premiums	31 193	27 650	23 840
Member savings	(6 220)	(5 528)	(4 787)
Net premiums	24 973	22 122	19 053
Claims	(20 273)	(17 693)	(15 202)
Transfer arrangements	(236)	(257)	(58)
Gross underwriting surplus	4 464	4 172	3 793
Non healthcare expenses	(4 542)	(4 197)	(3 698)
Net healthcare result	(78)	(25)	95
Investment + other income	539	596	678
**NET SURPLUS	461	571	773
BALANCE SHEET	R'million	R'million	R'million
Members surplus	7 419	6 847	6 071
Members savings accounts	1 931	1 718	1 544
Provision for claims	568	561	474
Other liabilities	660	666	509
TOTAL SURPLUS + LIABILITIES	10 578	9 792	8 598
Total investments	9 260	8 657	7 769
Debtors + pre-payments	1 318	1 135	829
TOTAL ASSETS	10 578	9 792	8 598

** excludes unrealised investment movements

- The net surplus achieved represented 52% of the budgeted level.
- Net surpluses have been posted over the last 10 years except for 2005.
- Total claims increased by 14% but the claims ratio only edged up slightly to 82%.
- The GP network consists of 4000 GP's nationally and direct payment arrangements with specialists cover 86% and 88% of all GP and specialist consultations respectively.
- Delivery costs (administration and managed care cost mainly) increase by 8% which translates to a 14.6% cost to GPI ratio. The latter is more than the recommended Council for Medical Schemes guideline of 10%
- Despite the net healthcare deficit of R78 million, the scheme's net result amounted to R461 million, thanks to investment income of R534 million.

6. Solvency and reserves

- The members' surplus rose by 8% to R7.4 billion which represents a member surplus to NPI ratio of 30%.
- The growth in membership caused the statutory funding ratio to decrease from 24.7% to 23.5%.
(Management aims to achieve the statutory level of 25% in 2015)
- Reserves per principal member increased to R6 896 which is regarded as a healthy level for a scheme of DH's size.
- Gross premium for 2012 is expected to grow by 14% and a claims ratio of 81% is budgeted for in 2012 which (if achieved) should realise a net healthcare surplus of between R200 million and R400 million.