

MOMENTUM MEDICAL SCHEME (MMS): DECEMBER 2011

1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of MMS as reviewed in April 2012 (in respect of 2011). MMS is administered by Momentum Medical Scheme Administrators (MMSA) which is a wholly owned subsidiary of MMI Holdings Ltd (which owns Momentum Group Ltd and Metropolitan Holdings Ltd).

The rating of A+ is based on the following key factors:

- MMS' affiliation with a large financial services group (MMI Holdings) ensures brand recognition and together with the focus on enhanced benefit design and distribution strategy supports its position as one of the larger open schemes.
- A second consecutive net health care surplus resulted in an increase of statutory solvency levels which however remains below the statutory requirement.
- Investment portfolios show lower risk as noncash investments comprise low risk cash linked instruments.
- The scheme's age profile continues to improve due to ongoing diversification.

2. Membership base

- Principal members increased by 5% to 93092 (after the previous year's growth of 9% due to the amalgamation with Ingwe Health). Total beneficiaries increased from 181 645 to 186 903.
- The distribution strategy in conjunction with the administrator (MMSA) has been revived to especially utilise the Momentum Group's tied agency force to attract a younger demographic member profile. Growth via acquisitions are also being pursued with caution.
- Individual members comprised 60% of the risk pool (up from 55%), and the 40% corporate pool is well diversified with the largest employer accounting for 4% of total principal members.
- Intermediary concentration is notable as the three largest brokers comprise 35% of the risk pool membership (Momentum affiliated brokers are however included in this grouping).
- The average principal member's age equated to 42.8 years (industry average estimated at 45 years), and that of beneficiaries stood at 34.6 years (slightly higher than the estimated industry average of 33 years).

3. Product line

- There are 6 comprehensive options namely:

INGWE OPTION

Covers in hospital benefits via a limited hospital network (or state hospital) with an overall annual limit of R900 000. Chronic and day to day benefits are provided via Care Cross or a Prime Cure facility.

- ACCESS OPTION

Unlimited private hospital cover via network hospitals and day to day benefits are provided through Medicross, Care Cross or Prime Cure.

- CUSTOM OPTION

Provides unlimited private hospital benefits and day to day benefits are funded from the Health Saver facility. Members may select their in and out of hospital providers which provide discounts on contributions payable.

- **INCENTIVE OPTION**
Hospital cover is provided at 200% of medical aid rate and limited day to day benefits. Contributions include a 10% savings component for day to day benefits. In hospital and chronic benefit providers may be chosen which reduces monthly contributions.
- **EXTENDER OPTION**
Same benefits as the Incentive option are provided. Only differences are the extensive chronic benefit which covers 62 conditions whilst the savings component is 25% of contributions.
- **SUMMIT OPTION**
Provides members with most comprehensive cover namely unlimited private hospital cover at 300% of medical aid rate and extensive day to day benefits with certain sub limits.

The following complementary products are also provided:

Health Platform: provides preventative care benefits (eg. early detection tests).

Health Saver: allows members to make additional contributions to their savings allowance.

Health Returns program: members are financially rewarded for having health assessments, taking their chronic medication and being active.

An increasing number of members opted for the lower priced options and a strong influx of new low income earning members was evident.

- The results of the most popular plans are summarised below

Plan	Membership (%)	Claims / NPI (%)	Net healthcare result (R'million)
Ingwe option	20	61.9	21.6
Access option	6	86.7	-1.0
Custom option	25	67.7	55.0
Incentive option	38	81.0	12.7
Extender option	10	85.1	5.0
Summit option	1	101.8	-11.9
TOTAL	100	79.6	81.4

NPI- Net Premium Income

- The improved financial performance of the Custom and Extender options was due to an increase in members, better claims protocols and effective management of provider relationships.
- The Summit option's net deficit nearly halved from the deficit of R20.7 million in 2010.
- The total net healthcare surplus increased from R22.6 million to R81.4 million.

4. Asset management

The investment portfolio consists mainly of:

Cash and cash equivalent: R377.2m (49.3%)
 Fixed interest investments: R335.5m (43.9%)
 Other (SAFEX security deposit): R 52.1m (6.82%)

Some of the cash was used to purchase the RAFI (a type of money market investment which aims to reduce exposure to overvalued stocks and the resultant market risk is hedged via futures).

The average investment yield (excluding unrealised movements) is stated at 8.6% and a loss of R8million was realised on the disposal of invested assets.

5. Financial performance

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

INCOME STATEMENT	(R'millions)		
	2011	2010	2009
Gross premiums	2179.7	1989.2	1895.9
Members' savings contributions	(220.1)	(244.6)	(231.3)
Net premium income	1959.7	1744.6	1664.6
Claims paid	(1532.5)	(1446.9)	(1413.7)
Transfer arrangements	(27.9)	14.0	(26.9)
Gross underwriting surplus	399.3	311.7	224.0
Non healthcare expenditure	(317.9)	(289.1)	(295.4)
Net healthcare result	81.4	22.6	(71.4)
Investment income (and other)	37.2	47.3	51.7
Net surplus for the year	118.6	69.9	(19.7)

BALANCE SHEET

Members surplus	519.9	401.5	307.1
Members savings account	83.7	85.6	84.7
Provisions for claims	135.4	107.5	121.5
Other liabilities	57.5	49.3	27.7
TOTAL LIABILITIES	796.5	643.8	541.1
Investments	764.8	610.6	512.2
Debtors and prepayments	31.7	33.2	28.9
TOTAL ASSETS	796.5	643.8	541.1

- Net investment income was under the budgeted amount but the net surplus (R118.6m) was more than double the budgeted figure R56.6 million.
- Total claims rose by 9% which resulted in a claims ratio of 80%.
- Total delivery costs increased by 10% to R318 million which represents a 14.6% delivery cost ratio (the industry average is 14%).
- Seventy three percent of total non-health care expenditure was paid to MMSA as they take care of the administration and managed care functions.

6. Solvency and reserves

The Net healthcare result increased significantly by R58.8 million (from a R22.6m to R81.4m). The net surplus (which includes investments income) amounted to R118.6 million which pushed accumulated funds up to R519.9million.

The members' surplus to NPI (net premium income) ratio increased by 4% to 27%.

The statutory funding ratio rose from 20% to 24% which is almost at the statutory requirement of 25%.

Accumulated funds per principal member rose to R5585 (R4518 in 2010) and covered average monthly claims by 4x.

7. Future prospects

A net healthcare surplus of R44.2m and a net surplus of R81.6m is predicted for 2012. The statutory solvency margin is therefore expected to reach 25%.

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