

GLOBAL CREDIT RATING CO: SA MEDICAL SCHEMES RATINGS BULLETIN

Global Credits Rating Co (GCR) recently published their annual summary of their ratings done on selected schemes. This communiqué contains a summary of the report.

1. OPERATING ENVIRONMENT

The report's introduction highlights the following issues which currently face the medical scheme industry:

NHI: The government envisages to provide healthcare to all South Africans irrespective of their ability to pay. The white paper to be issued shortly will provide more details. At this stage we only know NHI will be phased in over 14 years and pilot projects will kick start the process. The funding issue remains the major issue. Medical Schemes will continue to exist but with a different focus area which will probably be top up cover supplementing NHI.

PMB's: Prescribed Minimum Benefits consist of 271 hospital based conditions and 25 chronic conditions for which schemes must pay in full in terms of the Medical Schemes Act. Schemes want this to be reimbursed at scheme rates and not at invoiced rates as this could lead to overcharging by providers. A recent court case saw a BHF challenge in this regard being dismissed as the BHF did not have a legal standing.

Government further believes that tariffs should be negotiated at a national negotiating forum, which can be introduced once the Competition Commissioner has given the green light. Furthermore there was the abolishment of the RPL and more recently the pending of the newly introduced HPCSA guideline tariffs.

MSA: In terms of a High Court judgement medical savings accounts are deemed as trust property. The CMS subsequently ordered schemes to invest these funds in a separate savings account and all interest earned must accrue to members. No advances to members are allowed and it is suggested that only actual accumulated savings can be made available.

GAP Cover: This is an insurance product which draft Demarcation Regulations tried to prohibit as it is seen to undermine the cross subsidisation of schemes by luring younger and healthier members away from schemes. Currently insurance related health policies remain valid until the finalisation of the relevant Regulations.

STATUTORY SOLVENCY: Currently all Schemes need to adhere to a minimum ratio of 25% (ie. 3months of gross contributions). According to GCR this is not necessarily an accurate measurement of a scheme's financial strengths as the demographics and a scheme's plan options (traditional options versus options with savings plans) vary from scheme to scheme. CMS recently invited proposals in this regard.

2. SAMPLE OVERVIEW

GCR's ratings are based on the financial statements and published material. The statistics in this report are obtained from the 15 largest open schemes which collectively represent 90% of gross premium income (GPI) of all open schemes.

The consolidated income statement as at 31/12/2011 is:

		R'billion
GPI	:	60,7
Savings	:	<u>(7,8)</u>
Net premiums	:	52,9
Net claims	:	<u>(44,7)</u>
Gross underwriting result	:	8,2
Delivery costs	:	<u>(8,3)</u>
	:	(0,1)
Investment income	:	<u>1,3</u>
Net result	:	<u>1,2</u>

The loss ratio was 84,4% and delivery cost were 13,8% of GPI (down from 15% in 2009 and 14,4% in 2010) (Total beneficiaries stood at 4 519 123 made up of 2 074 760 principal members and 2 444 363 dependants)

3. MEMBERSHIP TRENDS

A critical element of the medical scheme industry is cross subsidisation (younger and healthier members subsidising older members). Larger schemes have a greater stability and enhanced bargaining power. Membership growth is therefore important and membership statistics are reflected in Annexure A.

The Government Employees Medical Scheme (GEMS) have grown through Persal members leaving other Schemes for GEMS due to the attractive subsidy policy. There are still (as at 31-12- 2011) 191 564 government employees who are members of other schemes.

The schemes with a sizable portion of government employees as a percentage of total members were:

Medshield	:	42,5%
Pro Sano	:	41,9%
Medihelp	:	34,1%
Liberty	:	20,0%
Fedhealth	:	18,3%
Resolution Health	:	16,6%
Bonitas	:	13,6%

Should the transfer ratio to GEMS continue these schemes would lose more members in the future.

Overall open schemes membership comprised of 10% public sector employees.

4. CONTRIBUTIONS AND SAVINGS ACCOUNTS

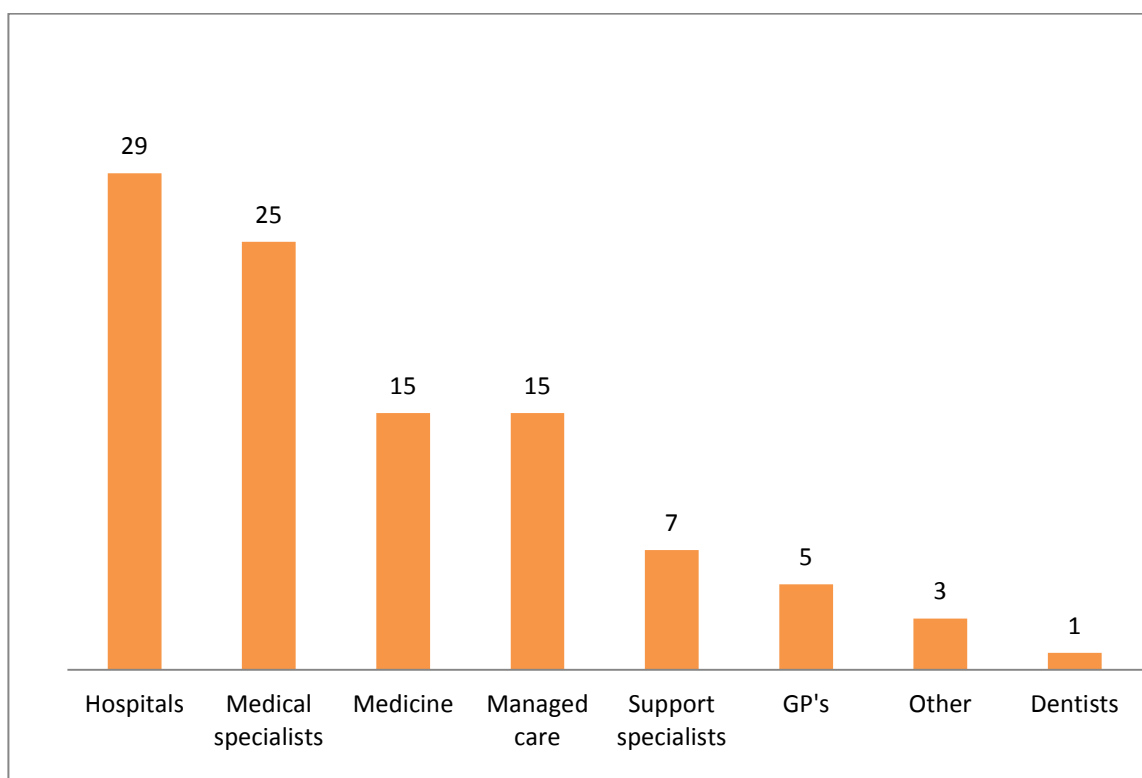
CMS approves schemes' contribution increases and normally recommend increases of CPI + 3%. For 2011 the increase for open schemes were 9,1% (14,3% in 2010)

GPI rose to R61 billion in 2011. Some options offered by schemes have a savings component which is limited to 25% of total contributions.

Total savings of the scheme surveyed amount to R7,8 bn (13% of GPI in 2011). Discovery Health's portion of the latter amounts to R6,22 billion. (See more statistics in annexure A)

5. RISK BENEFITS

Total claims for 2011 rose by 7% to R45 billion and a breakdown thereof is reflected in the chart below.



Due to better benefit design and managed care systems, the schemes surveyed managed to stabilise the loss ratio at 84%.

6. DELIVERY COSTS

The costs include administration fees, cost of managed care, broker fees and other management expenses. CMS's guideline is that non healthcare costs should be under 10% of GPI. These costs increased by 8% for 2011, leaving it at 13,8% of GPI. (no schemes met the 10% guideline). Administration fees alone were 7% of GPI.

Schemes also measure their delivery costs as the cost per beneficiary per month. In 2011 this amounted to R155 p.b.p.m.

7. FINANCIAL PERFORMANCE

(More detailed statistics are reflected in Annexure A)

The Schemes surveyed produced net healthcare deficit of R0,1bn but investment earnings assisted in achieving a net surplus of R1,2bn

8. LIQUIDITY

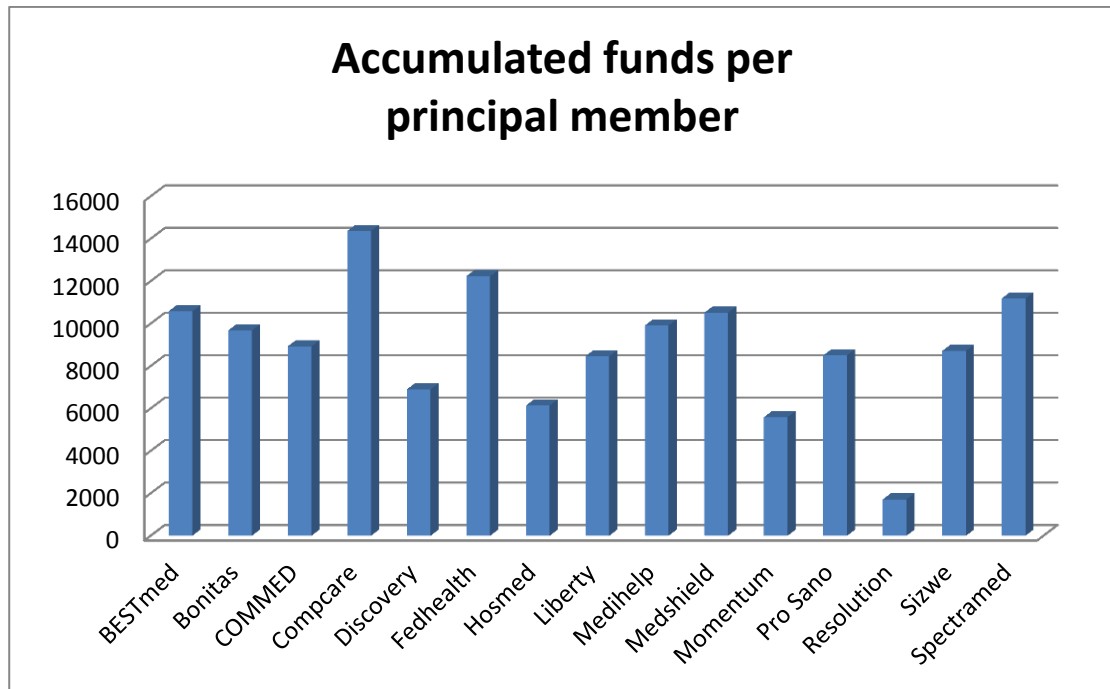
GCR's ratings review the underlying asset classes of schemes' investment portfolios to distinguish between cash and near cash and other "tied up" assets to determine what portion is realisable to pay claims. The liquid portion decreased by 5% to represent 64% of total investments. This lead to a gross cash coverage ratio of 3,1 months and a net (excluding savings accounts) coverage of 2,8 months.

9. SOLVENCY AND RESERVES

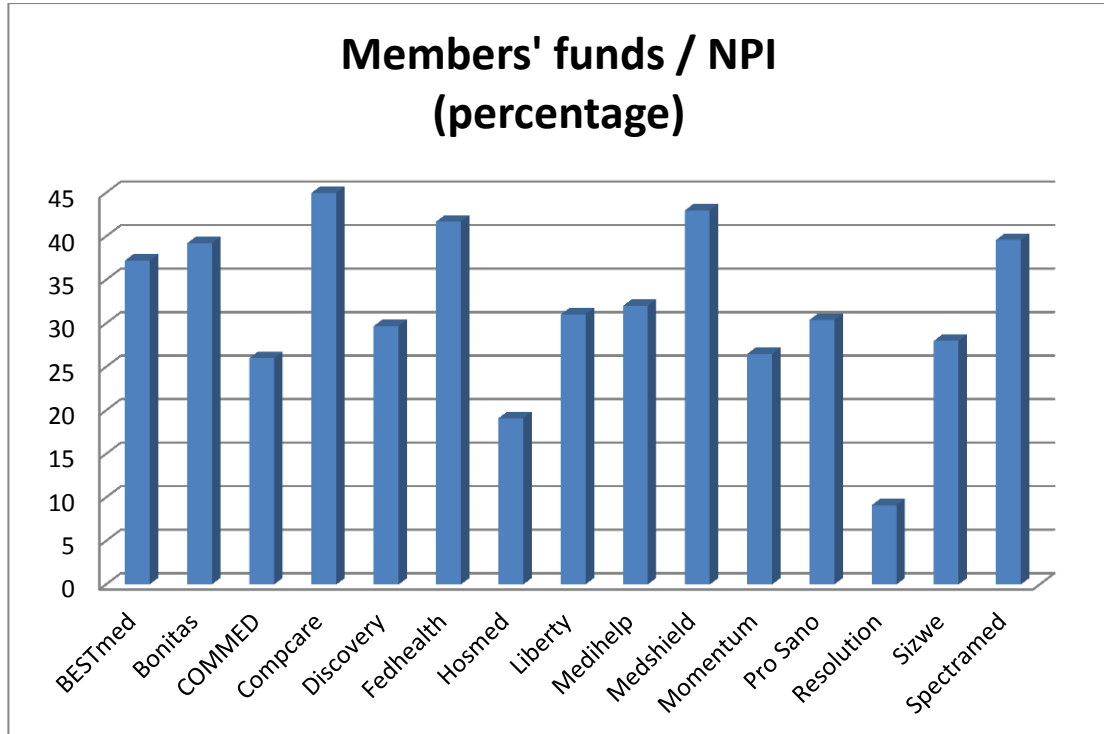
Schemes which do not comply with the statutory 25% level have to submit a business plan indicating the remedial actions planned to comply.

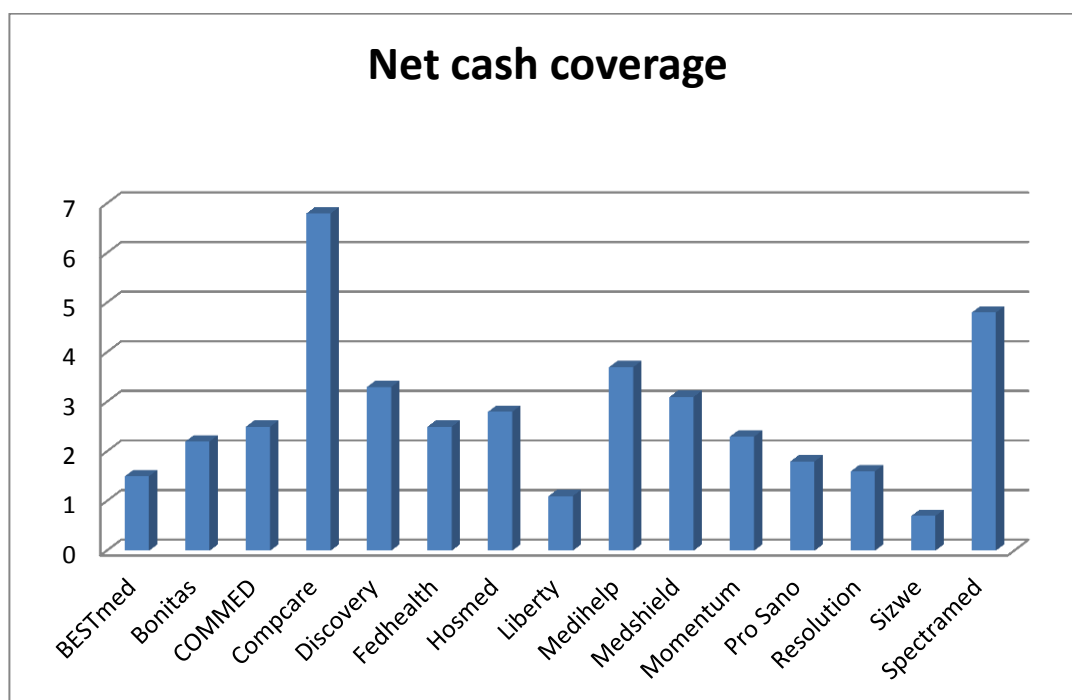
The schemes surveyed reflected total accumulated funds of R16bn in 2011, which represents an average level of 27,4%.The members' surplus and statutory solvency levels have not recovered to pre-2009 levels.

Five Schemes had solvency ratios below 25%. The internal solvency level which measures total reserves against net contributions as it is a more direct measurement of actual risk. GCR also analyse the average total accumulated funds per principal member. The graph below reflects the latter ratio.



Members' surplus to NPI ratio was a stable 32% in 2011. Other measures considered by GCR are the reserves per principal member and the coverage of monthly claims by accumulated funds. The graphs below reflect these ratios.





10. CONCLUSION

Many questions about the proposed NHI remain unanswered. The first step which involves the rehabilitation of the public health sector could be positive for medical schemes as they could use the public sector as part of a wider DSP arrangement.

Although schemes' financial performance recovered since 2009 (when high claims were experienced), interim results iro 2012 indicate that weaker operating results are being experienced. More smaller schemes are expected to consolidate to expand their member base, whilst member retention remains important. Other challenges which will continue to face medical schemes are the full payment of PMB's and the Consumer Commissioner opposing the application of late joiner penalties and waiting periods.

AL JORDAAN

Healthman: Analyst

ANNEXURE A													
Scheme	Principal members	Total members' surplus	Accumulated Funds	Accumulated funds per principal member	Net cash coverage	Statutory funding ratio	Members' funds / NPI	GPI	Net healthcare result	Net surplus		Rating	
	000's	Rm	Rm	Rands	Months	%	%	Rm	Rm	Rm			
	2011	2011	2011	2011	2011	2011	2011	2011	2011	2011			
BESTmed	70,986	815.1	750.9	10578.1	1.5	30.2	37.2	2,486.1	(8.4)		44.5		
Bonitas	275,780	2781.4	2,667.3	9671.8	2.2	37.0	39.2	7,209.9	(28.2)		166	AA-(ZA)	
COMMED	7,823	78.8	69.8	8922.4	2.5	22.0	26.0	316.7	(0.9)		2.7		
Compicare	11,195	161.8	160.8	14363.6	6.8	40.5	45.0	394.2	7.3		19.0	A _(ZA)	
Discovery	1,075,866	7419.2	7,419.2	6896	3.3	23.5	29.7	31,192.9	(77.6)		461.2	AA+ _(ZA)	
Fedhealth	72,110	936.9	882.2	12234.1	2.5	37.0	41.7	2,386.4	75.2		143.9	AA- _(ZA)	
Hosmed	32,953	203.5	202.2	6136	2.8	19.0	19.1	1,065.7	42.3		53.9	BBB+ _(ZA)	
Liberty	61,885	523.4	523.5	8459.2	1.1	27.9	31	1,876.5	(73.4)		9.4	AA- _(ZA)	
Medihelp	120,992	1,315.9	1,199.4	9913.1	3.7	28.7	32	4,117.9	84.5		165.0	AA- _(ZA)	
Medshield	97,715	1,153.2	1,027.3	10513.2	3.1	36.6	43	2,803.8	(98.5)		3.1	AA- _(ZA)	
Momentum	93,092	519.9	519.9	5584.8	2.3	23.9	26.5	2,179.7	81.4		118.6	A+ _(ZA)	
Pro Sano	28,023	252.7	238.3	8503.7	1.8	25.2	30.4	915.4	(11.7)		3.7	A+ _(ZA)	
Resolution	33,597	57.6	57.6	1714.4	1.6	9.1	9.1	634.9	(57.4)		(46.8)	BBB+ _(ZA)	
Sizwe	61,531	556.6	536.0	8711.1	0.7	26.9	28	1,989.2	(90.5)		(39.3)	A _(ZA)	
Spectramed	31,212	349.1	349.1	11184.8	4.8	32.2	39.6	1,082.6	60.6		101.4		
Total / Average	2,074,760	17,125.1	16,603.5	8,002.6	2.8	27.4	32.3	60,651.9	(95.3)		1,206.3		