DISCOVERY HEALTH MEDICAL SCHEME (DH): 2013

1. Introduction

GLOBAL CREDIT RATING CO.'s (GCR) latest credit rating (as at April 2014) in respect of 2013 of DH is 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 52% market share based on principal membership mainly due to strong branding, comprehensive plan options and their Vitality wellness programme.
- Although there was a strong growth in capital accumulation (R10bn in reserves) the solvency ratio stood at 24.3%.
- Claims ratio remained below the industry average due to ongoing risk management procedures, whilst net healthcare surpluses were registered in 3 of the last 5 years.
- Investment strategy remained conservative which supports liquidity metrics at sound levels.
- Member pool remains well diversified and the average member age profile remains under the industry average.

2. Membership base

- Principal membership base increased by 4.7% to 1 191 987 whilst open scheme membership remains subdued. Growth was of organic nature and the amalgamation with IBM and Nampak Medical Schemes added only 15 000 beneficiaries.
- The new entrants in the low income market found the Key Core plans especially attractive.
- The Vitality loyalty program also assisted in recruiting new members and member retention. Sixty percent of all beneficiaries participate in Vitality which causes members to generally live a healthier lifestyle, which is evident in the negative correlation between a member's Vitality status and claims frequency.
- Corporate and individual market segments represented 70% and 28% of the risk pool, with only 2% being public sector employees.
- The largest employer group represents a mere 1% of total membership and the 10 largest groups only represent 5%.
- Average age of principal membership remained at 43 (less than the industry average) and 33 for beneficiaries.
- The three largest intermediary houses are responsible for 22% of principal members.

3. Product line

There are 15 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 (R8 500 for member and R6 050 per adult dependant 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.
  The new Key Care Access Plan covers emergencies and childbirth only in network private hospitals. Other admissions are covered via the State facility network.

All options excluding the Key Care and Executive options have sub categories. Classic plans provide more extensive cover (e.g. 200% of scheme rate for in hospital services) compared to the Essential plans (100% of scheme 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 three largest options were Key Care Plus (18%), Classic Saver (19%) and Classic Comprehensive (15%).
The Essential and Classic Saver Plans reported the highest growth rates (11.8% and 11.6% respectively).

Main statistics are reflected below:

Plan	Membership growth (%)	Claims/NPI ratio (%)	Net healthcare result (R'm)
Executive	(1.4%)	126.8	(255.1)
Classic Comprehensive	(2.6%)	95.0	(490.6)
Essential Comprehensive	(10.4%)	77.7	113.7
Classic Priority	2.4%	75.7	305.2
Essential Priority	2.7%	62.3	59.5
Classic Saver	11.6%	70.8	597.9
Essential Saver	11.8%	59.7	322.8
Coastal Saver	4.9%	78.7	(33.3)
Classic Core	3.4%	65.5	240.6
Essential Core	11.5%	66.3	72.4
Coastal Core	6.0%	73.0	73.8
Key Care Plus	1.2%	85.5	(207.6)
Key Care Core	0.7%	49.5	56.1
Key Care Access	new	61.5	4.4
		80.7%	**859.8**

NPI- Net Premium Income

The Scheme increased the net healthcare surplus of R187m in 2012 to a surplus of R860m surpluses in 2013, mainly due to the following:

- effective benefit design
- forensic auditing and fraud detection which realised an estimated saving of R250m
- tariff negotiations with providers and a review of service level agreements
- a reduction in the non-healthcare costs ratio to GPI from 14.1% to 13.4%

4. Asset management

Guided by an independent investment consulting firm, a conservative strategy is employed.

Total investments amounted to R13.0bn of which R8.9bn (81%) was invested in cash and cash equivalents. The latter includes personal member saving balances of R2.6bn. The balance comprises of equities (5.4%) and bonds (14.2%). The average investment yield (including unrealised gains) was reported at 6.8% for 2013 (7.1% excluding interest on saving accounts and cash reserves).

The net average yield (excl. unrealised gains) was 5.6%.

5. Financial Performance

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

	(In R'million)		
	2013	2012	2011
Gross premiums	40 464	35 195	31 193
Member savings	(7 954)	(6 970)	(6 220)
Net premiums	**32 510**	**28 225**	**24 973**
Claims	(26 090)	(23 196)	(20 273)
Transfer arrangements	(141)	103	(236)
Gross underwriting surplus	**6 279**	**5132**	**4 464**
Non healthcare expenses	(5 419)	(4 945)	(4 542)
Net healthcare result	**860**	**187**	**(78)**
Investment + other income	539	505	539
****NET SURPLUS**	**1398**	**693**	**461**
BALANCE SHEET	R'million	R'million	R'million
Members surplus	9 970	8 241	7 419
Members savings accounts	2 777	2 291	1 931
Provision for claims	812	769	568
Other liabilities	974	775	660
TOTAL SURPLUS + LIABILITIES	**14 533**	**12 076**	**10 578**
Total investments	13 033	10 616	9 260
Debtors + pre-payments	1 500	1 460	1 318
TOTAL ASSETS	**14 533**	**12 076**	**10 578**

** excludes unrealised investment movements

- Gross contributions increased by 15% to R40.5bn
- The net surplus achieved represented 70% of the budgeted level.
- The claims ratio reduced to 80.7% which is under the open scheme average of 85%.
- Delivery costs (administration and managed care cost mainly) increased by 10% which translates to a 13.4% cost to GPI ratio. The latter is more than the recommended Council for Medical Schemes guideline of 10% and the open scheme average of 13.2%.
- Delivery costs amounts to R176 per beneficiary per month compared to the R172 industry average.
- The net healthcare surplus of R860m and after investment income of R539m, the scheme's net surplus amounted to R1 398m.
- This resulted in a 7th consecutive surplus with a cumulative R6.1bn added to reserves.
- The net healthcare surplus is 4.6 x higher that the 2012 surplus of R187m.

6. Solvency and reserves

- The members' surplus rose by 21% to R10bn which represents a member surplus to NPI ratio of 31%.
- Despite a growth in membership, the statutory funding ratio to increase from 23.4 % to 24.3%. (Management aims to achieve the statutory level of 25% by end of 2014).
- Reserves per principal member increased to R8 364 (from R7 228) which is regarded as a healthy level for a scheme of DH's size. The industry average is R9 607.
- Coverage of accumulated funds over monthly claims increased to 4.6 from 4.3.
- Gross premium for 2014 is expected to grow by 11% and a claims ratio of 82% is budgeted for in 2014 which (if achieved) should realise a net healthcare surplus of R1.2bn.
- Mergers with PG Bison and Afrox Medical Aid Schemes are expected to be conducted.

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