

# HOSMED MEDICAL SCHEME (HM)

## GCR RATING - 2014

### 1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of Hosmed as reviewed in June 2014 (in respect of 2013). Hosmed, which was established in 1988 to serve local and provincial government employees, is administered by Thebe Healthcare Administrators (previously Allcare). Hosmed has subsequently converted to an open scheme and was placed under curatorship in April 2014. The rating of A- (compared to A in 2012) is based on the following key factors:

- The schemes governance should improve under curatorship.
- Adequate liquidity measures and a sustained improvement of solvency ratios are positive factors.
- A lack of growth, the rising trend in claims ratios and an increase in delivery costs are evident and should be addressed.

The appointment of a new Board of Trustees resulted in improved governance structures and the scheme is pursuing civil and criminal cases against a previous service provider. (An estimated R18m is expected to be recovered.)

### 2. Membership base

- The number of principal members decreased from 27 998 to 27 142 and beneficiaries decreased from 78 130 to 75 579. (This was due to the loss of a midsized corporate account).
- HM's market share of open scheme membership is 1.3%.
- Local government membership decreased to 19 886 (73% of total members).
- Corporate membership is well diversified and the 10 largest employers accounts represent only 4% of the total membership.
- Intermediary concentration is notable as the three largest brokers account for 46% of the risk pool membership, whilst the largest broker represents 27% of principal membership.
- The average principal member age equated to 47 years and 30 in respect of beneficiaries.

### 3. Product line

There were 3 traditional options in 2013 namely:

- **Plus Plan** : Offers unlimited private hospital cover at scheme rates. Limited day-to-day cover, including GP & Specialist consultations are offered.
- **Value Plan** : Benefits are similar to that of the Plus Plan but more limitations apply to day-to-day benefits.
- **Step Plan** : This capitated option covers essential day-to-day requirements through a provider network. An annual limit of R650 000 per family applies. Members have to choose from a more restricted pool of designated service providers with a concomitant discount on contributions.

The results of the various popular plans are summarised below:

Plan	Membership (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Plus Plan	28.2	85.4	14.7
Value Plan	56.4	85.2	(3.1)
Step Plan	15.3	106.6	(15.6)
<b>TOTAL</b>	<b>100.0</b>	<b>86.6</b>	<b>(4.0)</b>

\*NPI- Net Premium Income

- Membership declined by 3% with the Step and Plus Plans contracting by 6%.
- The Value Plan represents 56% of the total risk pool.
- The overall claim ratio as a percentage of NPI came to 86% (2012: 83.3%)
- The Step plan's claims ratio rose from 93% to 106%.
- The total net healthcare surplus of R 40.4 million in 2012 turned into a net deficit of R 4 million in 2013.

#### 4. Asset management

The investment portfolio which is managed by Taquanta (Pty) Ltd consists mainly of:

Cash and cash equivalent:	R 226.7m (66.4 %)
Bonds/promissory notes:	R 69.3m (20.3 %)
Listed equities	R 45.4m (13.3 %)
	R 341.4m

- A gross average investment yield of 6% was reported.
- Nett cash coverage remained at 2.9 months.

#### 5. Financial performance

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

##### INCOME STATEMENT

	(R'millions)		
	2013	2012	2011
Gross premiums	1 096.5	1 075.6	1 065.7
Members' savings contributions	0	0	0
<b>Nett premium income</b>	<b>1 096.5</b>	<b>1 075.6</b>	<b>1 065.7</b>
Claims paid	-930.4	-908.8	-858.6
Transfer arrangements	-18.7	12.5	-21.6
<b>Gross underwriting surplus</b>	<b>147.4</b>	<b>179.4</b>	<b>187.5</b>
Non healthcare expenditure	-151.4	-138.9	-145.1
<b>Nett healthcare result</b>	<b>-4.0</b>	<b>40.4</b>	<b>42.3</b>
Investment income (and other)	17.9	12.5	11.7
<b>Nett surplus for the year</b>	<b>13.9</b>	<b>53.0</b>	<b>53.9</b>

##### BALANCE SHEET

Members surplus	269.8	259.4	203.5
Members savings account	0	0	0
Provisions for claims	69.6	51.0	63.5
Other liabilities	24.0	22.8	16.9
<b>TOTAL LIABILITIES</b>	<b>363.4</b>	<b>333.2</b>	<b>284.0</b>
Fixed assets	0.2		
Investments	341.4	301.4	251.9
Debtors and prepayments	21.8	31.8	32.0
<b>TOTAL ASSETS</b>	<b>363.4</b>	<b>333.2</b>	<b>284.0</b>

- Net premium income remained flat at R 1.1 billion, notwithstanding an average 7% increase in contributions.
- Total net claims rose by 6% to R 930m which resulted in a claims ratio of 87% which (for the first time) exceeded the industry norm.
- Total delivery cost increased by 9% and amounts to R167 per beneficiary per month, compared to R148 in 2012.
- A surplus of R14 million was achieved after realised investment income of R 18 million softened the blow of a R4m net healthcare deficit.

**6. Solvency and reserves**

Members surplus increased by 4% to R270m, which boosted the members' surplus/NPI ratio to 25%.

The statutory funding ratio stood at 24.5% and accumulated funds per principal member increased to R9 915 (R9 115 in 2012) and covered average monthly claims by 3.4 x (which is under the open scheme average of 5.2 x).

**7. Future prospects**

The curator indicated that member retention will be a priority. Gross contributions for 2014 are expected to rise by 3% and the claims ratio is expected to decrease slightly to 86%.

The statutory solvency level is expected to comply with the required 25% by end of 2014.

**OCTOBER 2014  
HEALTHMAN**