

# MOMENTUM MEDICAL SCHEME (MMS)

## GCR RATING: 2014

### 1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of MMS as reviewed in May 2014 (in respect of 2013). 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 AA- (unchanged from 2012) is based on the following key factors:

- MMS' established market position and affiliation with a large financial services group (MMI Holdings) ensured continued strong growth, together with an innovative flexible benefit design.
- Stable delivery costs and below average claim ratios assisted in posting a fourth consecutive net health care surplus. This resulted in the increase of statutory solvency levels above the statutory level and above that of the open scheme industry.
- Investment portfolios are very conservative with all assets held in cash and money market instruments.

### 2. Membership base

- Principal members increased by 7% to 108 108. Total beneficiaries increased from 200 062 to 212 378 (Market share crept up to 5%).
- Individual members comprised 65% of the risk pool (up from 63%) and the 34% corporate pool is well diversified with the largest employer accounting for 2% of total principal members. The 5 largest accounts represent only 7% of total risk members.
- Intermediary concentration is notable as the three largest brokers (excluding in house brokers) comprise 10% of the risk pool membership, whilst the 2 largest Momentum-linked brokers comprise 32% of principal membership.
- The average principal member's age equated to 42.6 years (which is below the industry average). The average age of beneficiaries stood at 33 years (which is in line with industry norms).

### 3. Product line

There are 6 comprehensive options namely:

#### INGWE OPTION

Covers primary care within hospital benefits through a limited private hospital network (and state hospital) with an overall annual limit of R1million at scheme rate. Chronic and day-to-day benefits are provided through the Ingwe Primary Care network.

#### ACCESS OPTION

Unlimited private hospital cover through network hospitals and day-to-day benefits are provided through the Access Primary Care Network.

#### 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. Procedures in respect of Major Medical Benefits would normally incur a co-payment.

#### INCENTIVE OPTION

Hospital cover is provided at 200% of medical scheme rates 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. Chronic cover is more comprehensive than on the Custom option.

#### EXTENDER OPTION

The same benefits as the Incentive Option are provided. The only difference is the extensive chronic benefit which covers 62 conditions. The savings component makes up 25% of contributions.

#### SUMMIT OPTION

Provides members with the most comprehensive cover. Members have unlimited private hospital cover at 300% of medical scheme rates 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 and certain maternity benefits).

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. A strong influx of members from the lower LSM groups was noted.

- The results of the most popular plans are summarised below:

Plan	Membership growth (%)	Claims / NPI (%)	Net healthcare result (R'million)
Ingwe option	16.8%	73.4%	16.6
Access option	-17.0%	71.2%	15.0
Custom option	19.4%	69.3%	82.7
Incentive option	0.0%	83.6%	-6.5
Extender option	-12.4%	85.4%	6.9
Summit option	-13.8%	102.3%	-10.6
TOTAL	7.1%	79.5%	104.1

#### NPI- Net Premium Income

- The Ingwe and Incentive options experienced a significant increase in the claims to net contributions which mainly contributed to the claims/NPI ratio deteriorating to 80% from 78%.
- The total net healthcare surplus decreased from R134 million to R104 million.

#### 4. Asset management

The investment portfolio consists mainly of:

Cash and cash equivalent: R 44.5 m ( 3.9%)

Money market related: R1 096.0 m (96.1%)

The bulk of the money market portfolio consists of R829m invested in RAFI instruments and R65 m in “Safex safety deposits” which are not conventional investment vehicles for a medical scheme. The investment portfolio mix remains a conservative investment strategy” as per the CGR report.

The gross average investment yield is stated at 3.1% (4.3% in 2012) and 3.7% if adjusted for cash reserves and interest on attributable to members’ savings accounts.

## 5. Financial performance

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

<b>INCOME STATEMENT</b>	<b>(R'millions)</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Gross premiums	2 698.8	2 420.2	2 179.7
Members’ savings contributions	(236.4)	(228.9)	(220.1)
Net premium income	2 462.4	2 195.1	1 959.7
Claims paid	(1 941.8)	(1 710.5)	(1 532.5)
Transfer arrangements	(15.7)	0.1	(27.9)
Gross underwriting surplus	504.9	484.7	399.3
Non healthcare expenditure	(400.8)	(350.9)	(317.9)
Net healthcare result	104.1	133.8	81.4
Investment income (and other)	39.6	39.8	37.2
Net surplus for the year	143.7	173.6	118.6

## **BALANCE SHEET**

Members surplus	837.7	693.9	519.9
Members savings account	94.6	89.3	83.7
Provisions for claims	151.0	135.3	135.4
Other liabilities	82.5	97.3	57.5
<b>TOTAL LIABILITIES</b>	<b>1 165.8</b>	<b>1 015.8</b>	<b>796.5</b>
Investments	1 140.4	988.1	764.8
Debtors and prepayments	25.4	27.6	31.7
<b>TOTAL ASSETS</b>	<b>1 165.8</b>	<b>1 015.7</b>	<b>796.5</b>

- Net premium income increased by 12% to R2.5bn.
- Total claims rose by 14% to R2bn which resulted in a claims ratio of 80%.
- Total delivery costs increased by 14% to R400 million which represents a 14.9% delivery cost ratio (Percentage of Gross Premium Income)
- The delivery cost per beneficiary to R157 which is below the industry average of R173.

## 6. Solvency and reserves

The Net surplus of R143 m caused the members’ surplus to increase by 21% to R838m.

The members’ surplus to NPI (net premium income) ratio increased to 34%.

The statutory funding ratio rose to 31% from 29% which is above the statutory requirement of 25%.

Accumulated funds per principal member rose to R7 749 (R6 875 in 2012) and covered average monthly claims by 5.1 x.

## 7. Future prospects

A net healthcare surplus of R32m and a net surplus of R103m are predicted for 2014. The statutory solvency margin is therefore expected to be 32% with the number of principal members increasing by 12% to 121 529.