



Discovery Health Medical Scheme: Annual General Meeting

Milton Streak : Principal Officer – DHMS

23 June 2016

1	Financial strength and sustainability of Discovery Health Medical Scheme (DHMS)
2	Governance of DHMS and the relationship between DHMS and Discovery Health
3	Regulatory updates
4	DHMS Strategic objectives for 2016

Key management metrics for a medical scheme

Growth and sustainability



Membership size

Greater risk pooling means **more predictable claims experience** and accuracy in pricing, leading to stable performance



Membership growth

Continuous membership growth **improves risk pooling**, and reflects attractiveness and competitiveness of the Scheme through **cross-subsidisation** principles



Plan movements

Indicates **plan satisfaction**, stability in benefit design and appropriate pricing



Contribution increases

Reflects **effective risk management** and **value proposition** to members



Absolute reserves

Demonstrates a scheme's ability to **meet large, unexpected claims variation**



Pricing sufficiency

Surplus year-on-year reflects **contribution levels** that are in line with expected membership and claims

Financial strength

2015 Key financial metrics of DHMS

Measure	2014	2015	% change
Gross Contribution Income (R'000)	44,905,716	49,759,756	10.8%
Number of members at year end	1,231,116	1,267,877	3%
Number of lives at year end	2,634,819	2,691,852	2.2%
Surplus (R'000)	1,536,808	1,276,140	
Solvency reserves (accumulated funds per Regulation 29) (R'000)	11,556,971	12,929,011	11.9%
Solvency	25.76%	25.98%	

2015 DHMS Financial highlights



Measure	2014 R'000	2015 R'000	% change pampm
Gross Contribution Income	44,905,716	49,759,756	7.3%
Less savings contribution income	-8,794,716	-9,693,015	6.8%
Net contribution income	36,111,000	40,066,741	7.5%
Relevant healthcare expenditure*	-30,692,168	-34,503,627	8.9%
Gross healthcare result	5,418,832	5,563,114	
Broker service fees	-918,871	-982,874	3.6%
Expenses for administration	-3,585,641	-3,874,896	4.7%
Other operating expenses	-161,129	-198,387	19.3%
Net healthcare result	753,191	506,957	
Net investment and other income**	783,617	769,183	
Net surplus for the year	1,536,808	1,276,140	

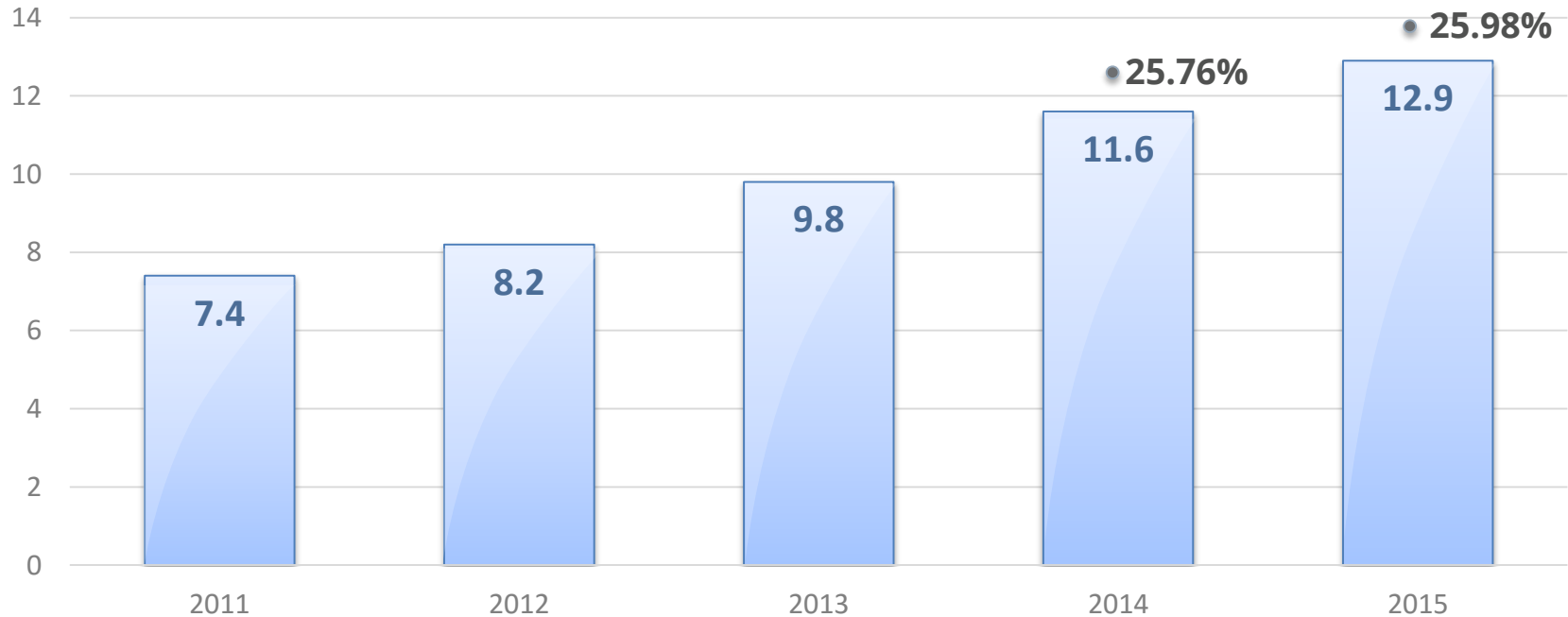
*Includes accredited managed healthcare fees.

**Net of interest paid on member savings accounts and expenses for asset management services rendered.

DHMS has significant reserves to fund members' claims

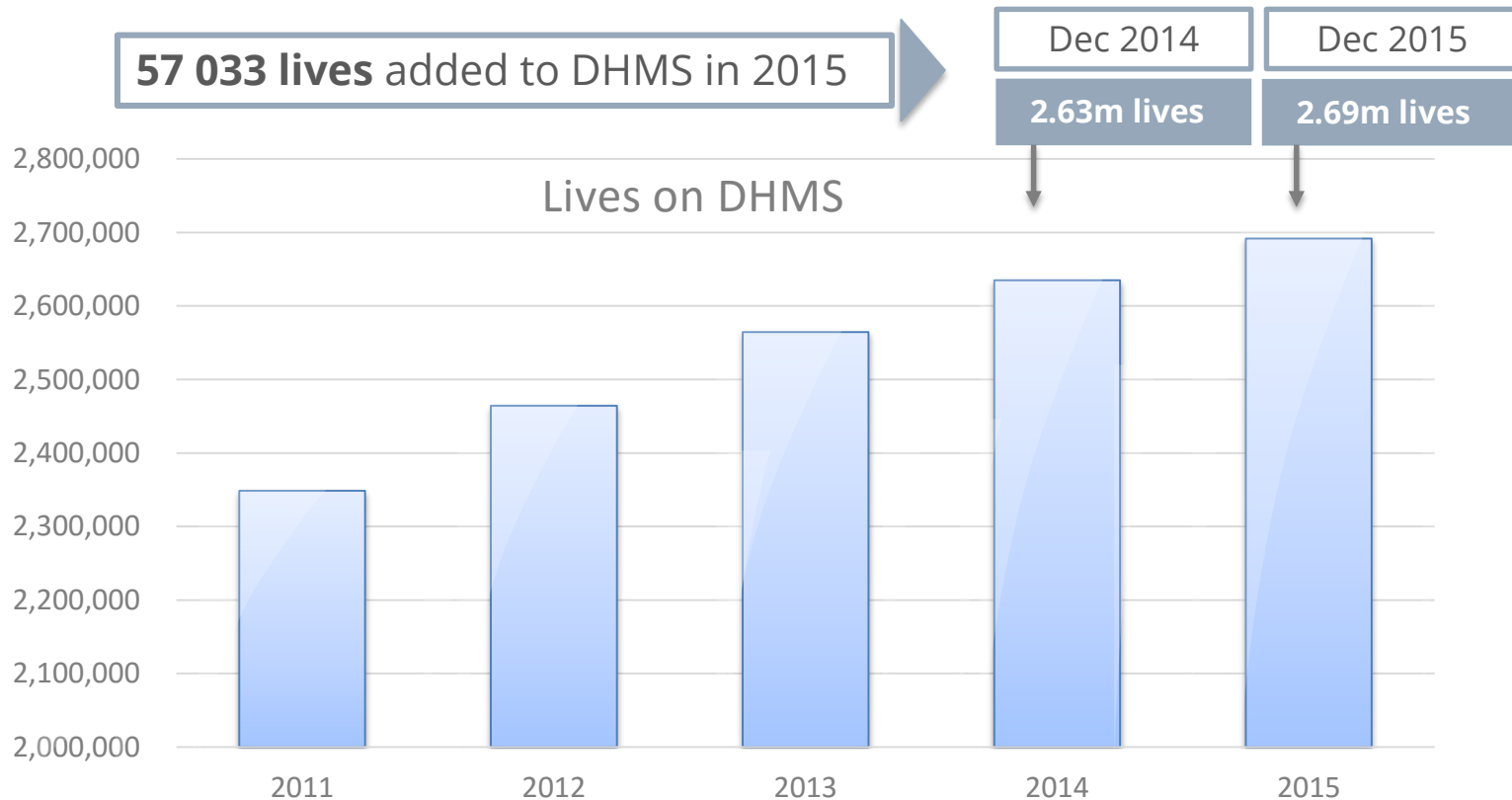


Solvency and reserves (R' billion)



DHMS has been awarded the highest rating of AA+ for 15 years in a row by Global Credit Rating Co

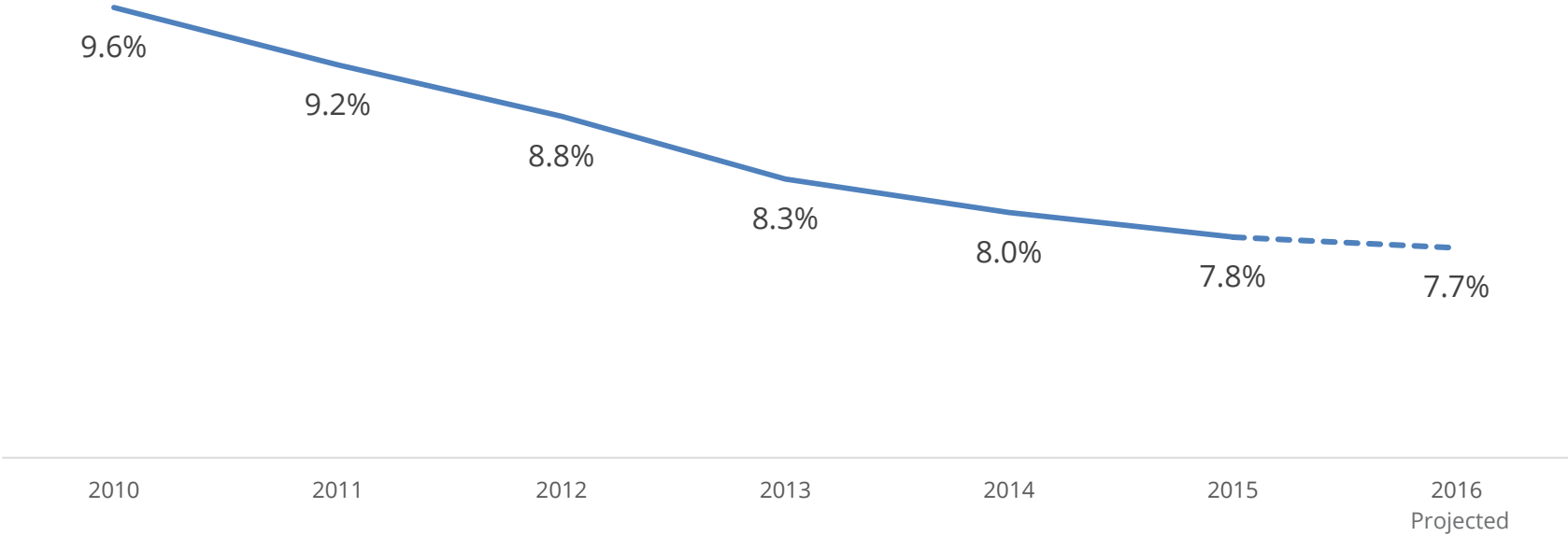
DHMS continues to maintain strong membership growth



Continuous decrease in administration fees as a percentage of gross contributions due to increasing efficiency gains from economies of scale



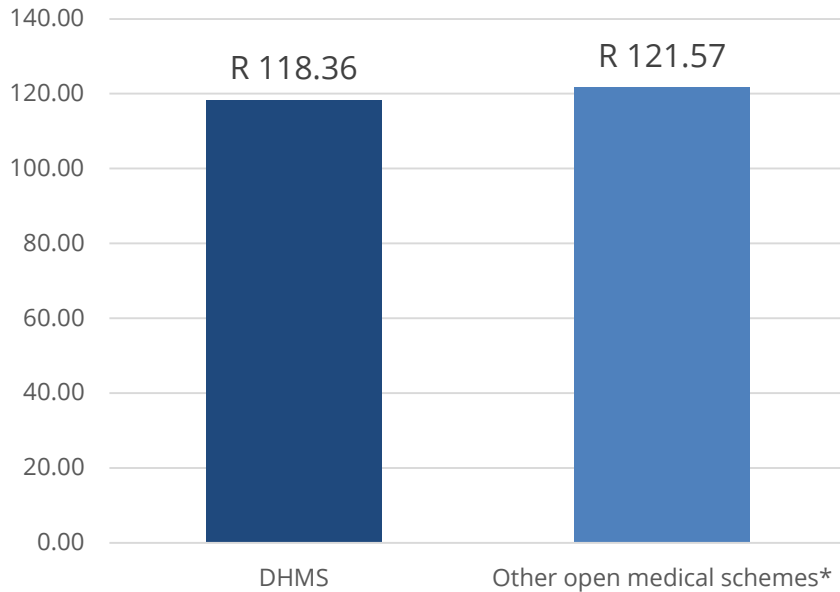
Administration fees paid to Discovery Health as a percentage of gross contributions



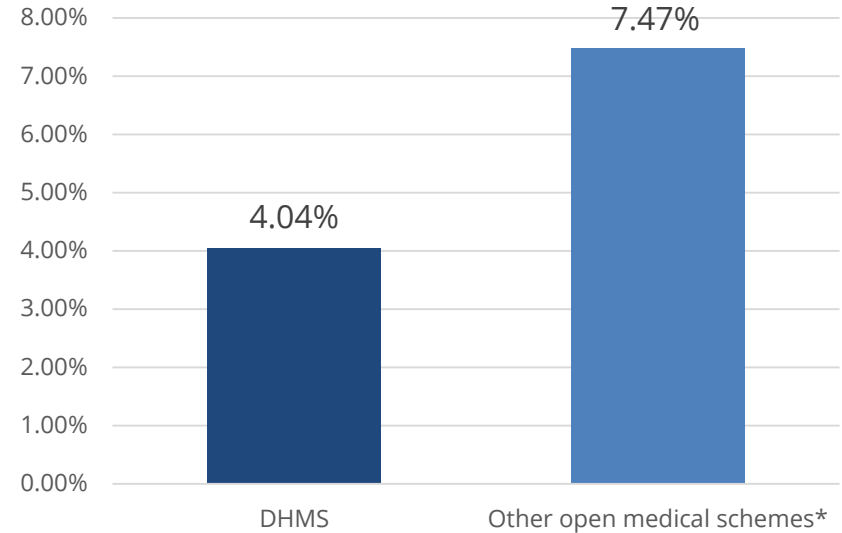
Source: CMS Annual Reports and DHMS data

DHMS Gross Administration Expenditure is lower than industry

Gross Administration Expenditure pabpm in 2014



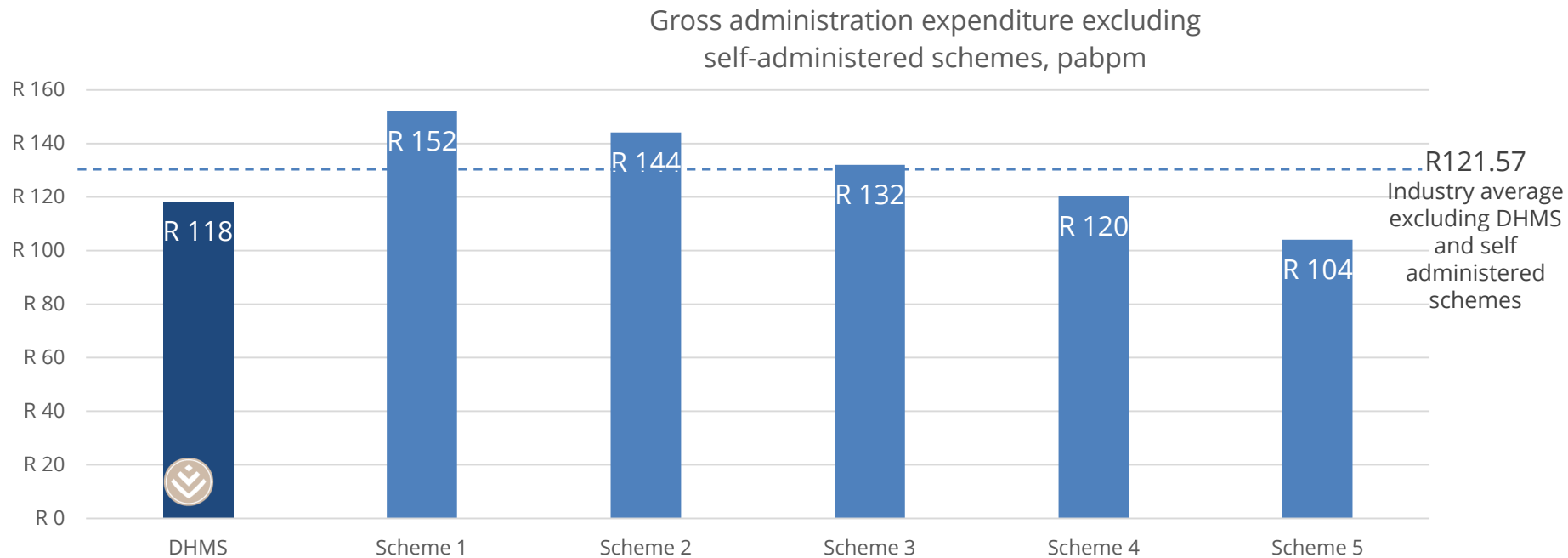
Annual increase in Gross Administration Expenditure pabpm from 2013 to 2014



*Excluding DHMS & self-administered schemes
Source: CMS Annual Reports

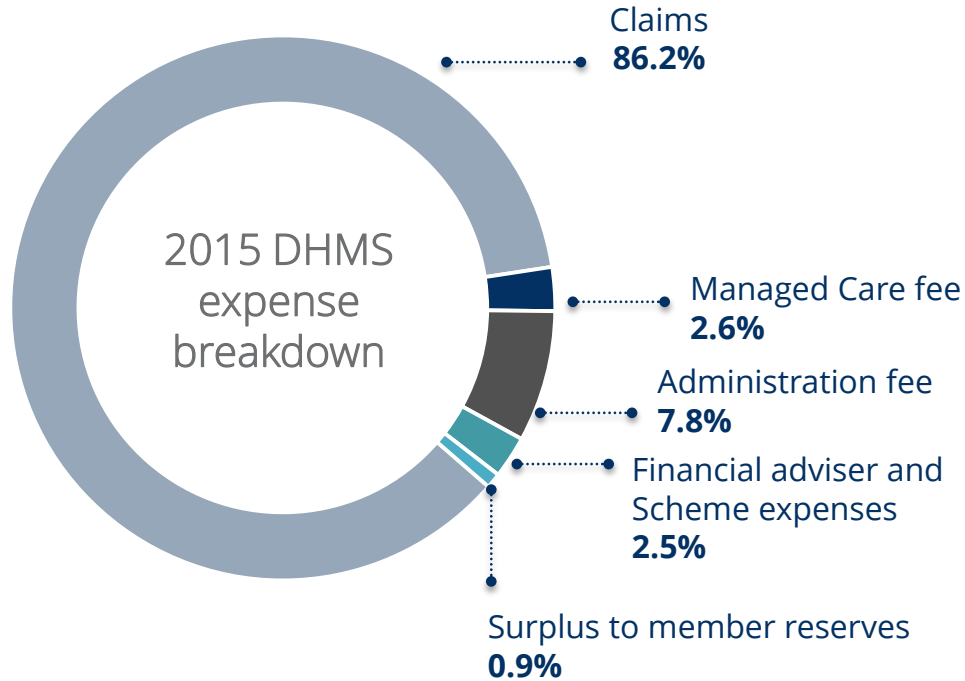
Gross administration expenditure includes administration fees paid to Administrator and other scheme operational expenditure, but excludes impairment losses.

DHMS Gross Administration Expenditure is lower than most large open medical schemes and below the industry average



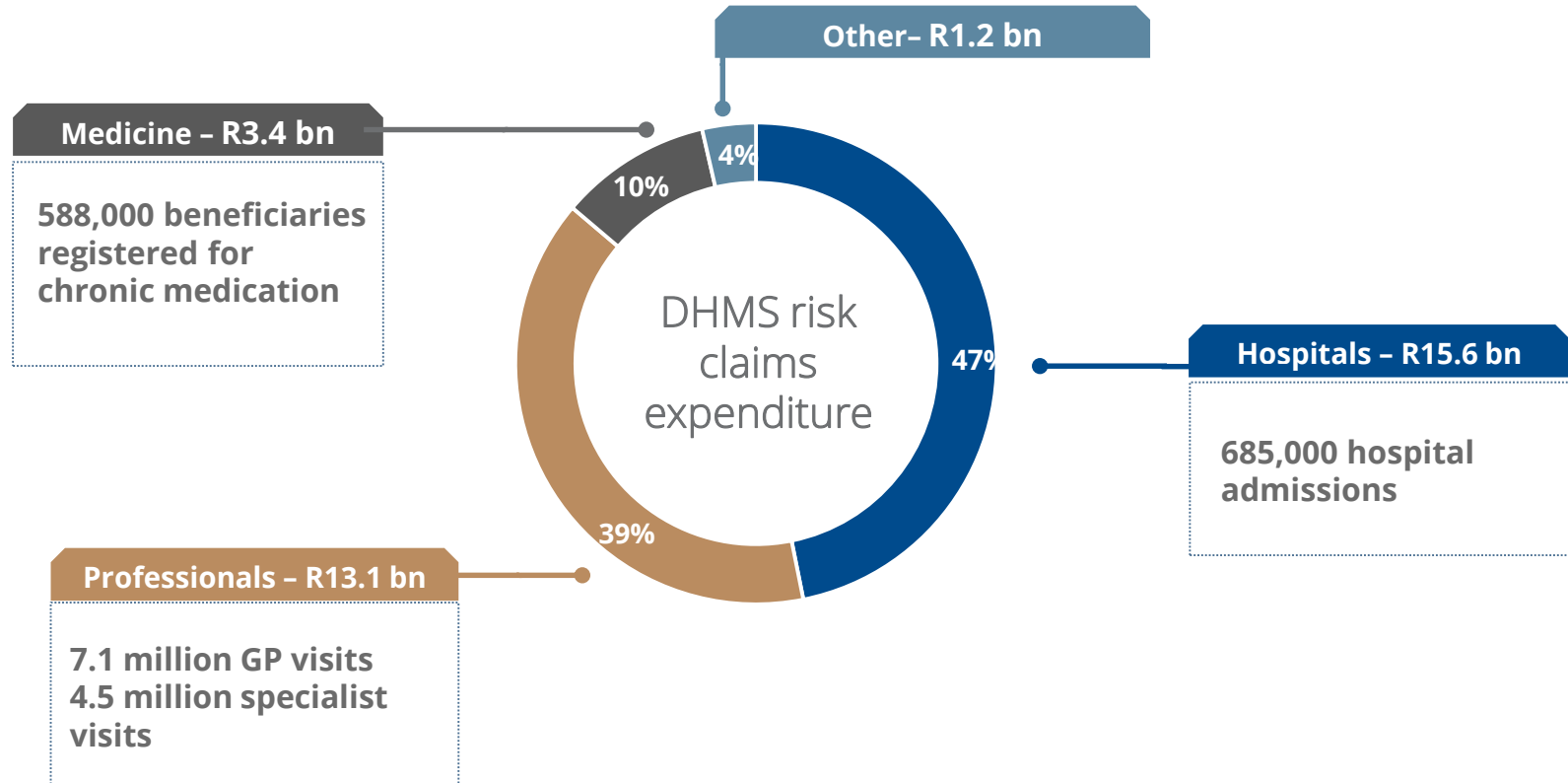
DHMS was ranked 13th out of 23 open schemes and was below the average

We exist for our members



87% of contributions received are used for members' direct benefit by funding claims and reserves

DHMS 2015 risk claims expenditure of R33.3 billion



DHMS provides financial security despite high medical inflation and rising claims costs

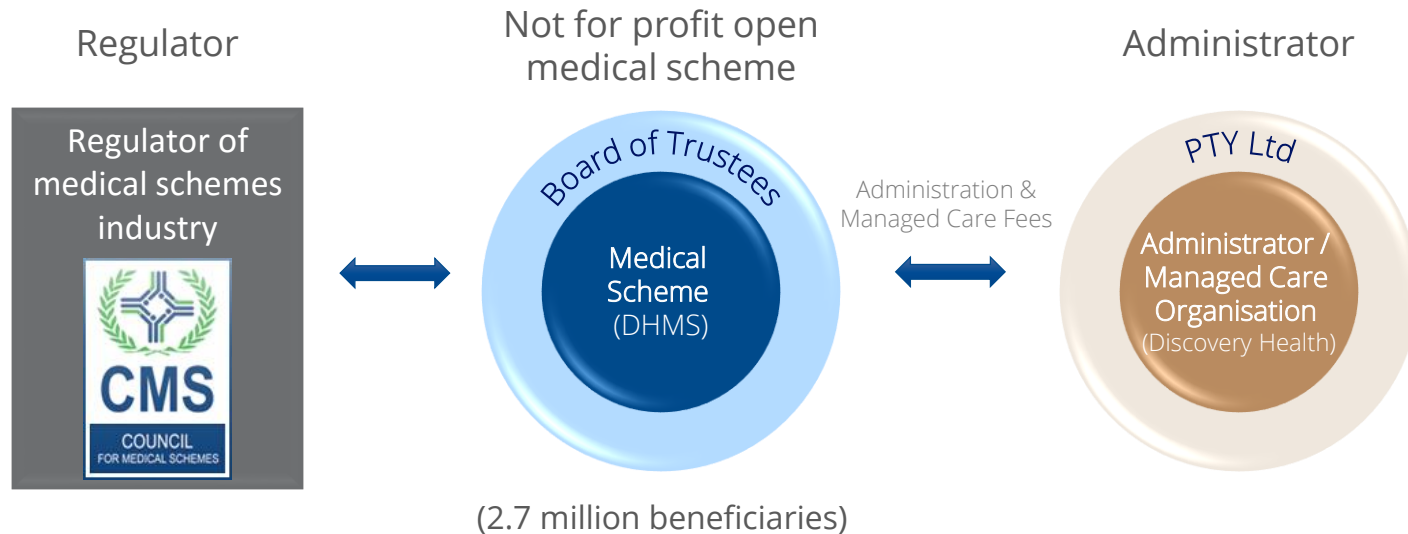
High-cost claims paid in 2015 (R'million)	
9.4	Genetic blood disorder
8.3	Malignant cancer
6.9	Respiratory failure
6.5	Respiratory failure
6.3	Malignant cancer
6	Non-specific cancer
5.9	Respiratory failure
5.8	Organ infection
4.8	Heart failure
4.6	Respiratory failure
64.5	Total

R 2 675
risk contribution pampm
in 2015

In 2015, DHMS paid out
over R500 000 each to 5 230 beneficiaries
and over R1 million each to 1 110
beneficiaries

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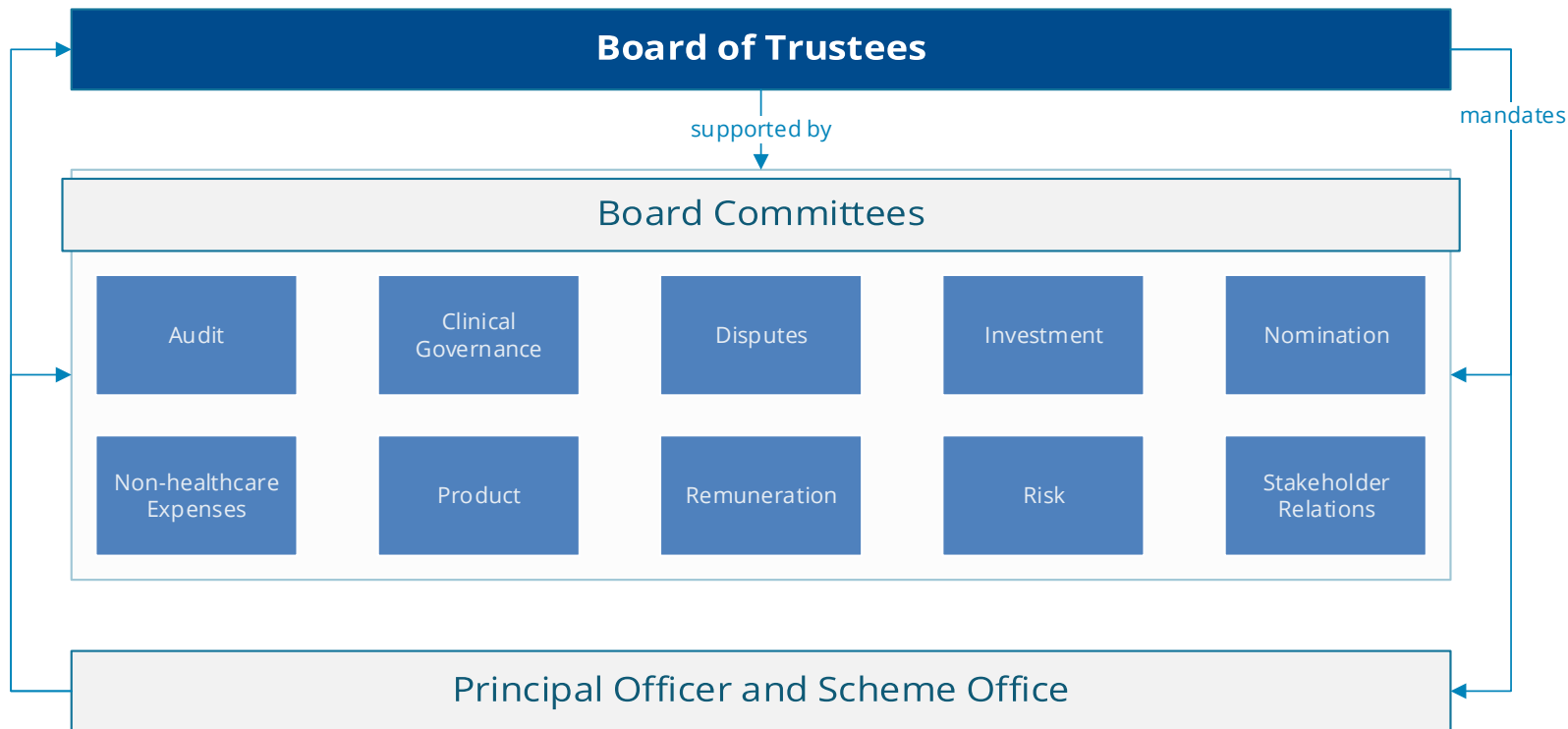
Operating environment of DHMS



- Governed by the Medical Schemes Act No 131 of 1998, as amended
- Regulated by the Council for Medical Schemes

... we exist for our members

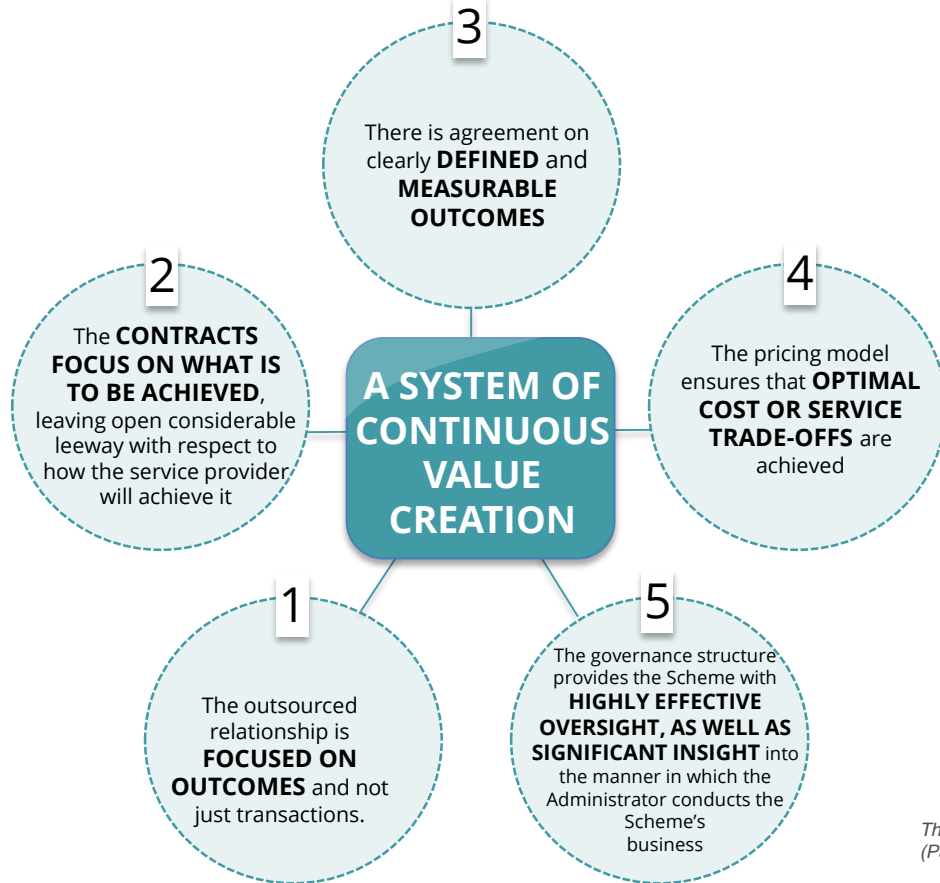
Governance structure



Majority of Trustees elected by Scheme members

The DHMS business model

The Vested[®] outsourcing model promotes five tenets



Continual optimisation



In March 2016, the Scheme commenced an extensive review of the current status of the Vested[®] outsourcing relationship to identify areas which could be optimised



This review was undertaken in conjunction with international Vested[®] outsourcing experts Prof. Kate Vitasek and Mr. Andrew Downard

Prof. Kate Vitasek explains Vested®

...and comments on the Scheme's working relationship with Discovery Health



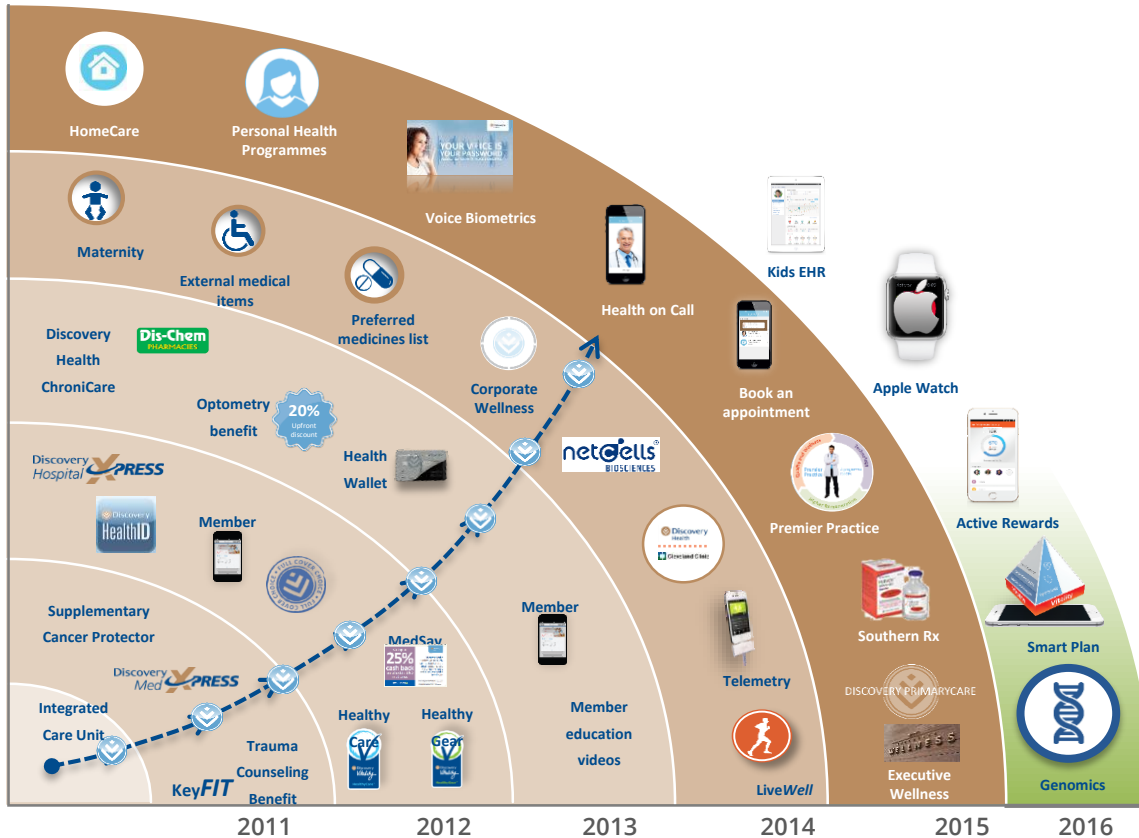
Prof. Kate Vitasek

- World authority on how to create highly collaborative relationships that drive innovation
- Listed as one of the most influential people impacting global commerce by *World Trade Magazine*
- Appeared on Bloomberg radio, CNN, National Public Radio and on Fox Business News
- Featured in over 300 articles in publications like *Forbes*, *Chief Executive Magazine*, *CIO Magazine*, *The Wall Street Journal*, *Journal of Commerce*, *World Trade Magazine* and *Outsource Magazine*
- Named as one of their “Powerhouse 25” outsourcing industry leaders by *Globalization Today*

Prior to joining the University of Tennessee, Kate's career included positions with P&G, Microsoft, Accenture, Stream International and founding Supply Chain Visions.



What the Vested[®] approach means for DHMS and its members

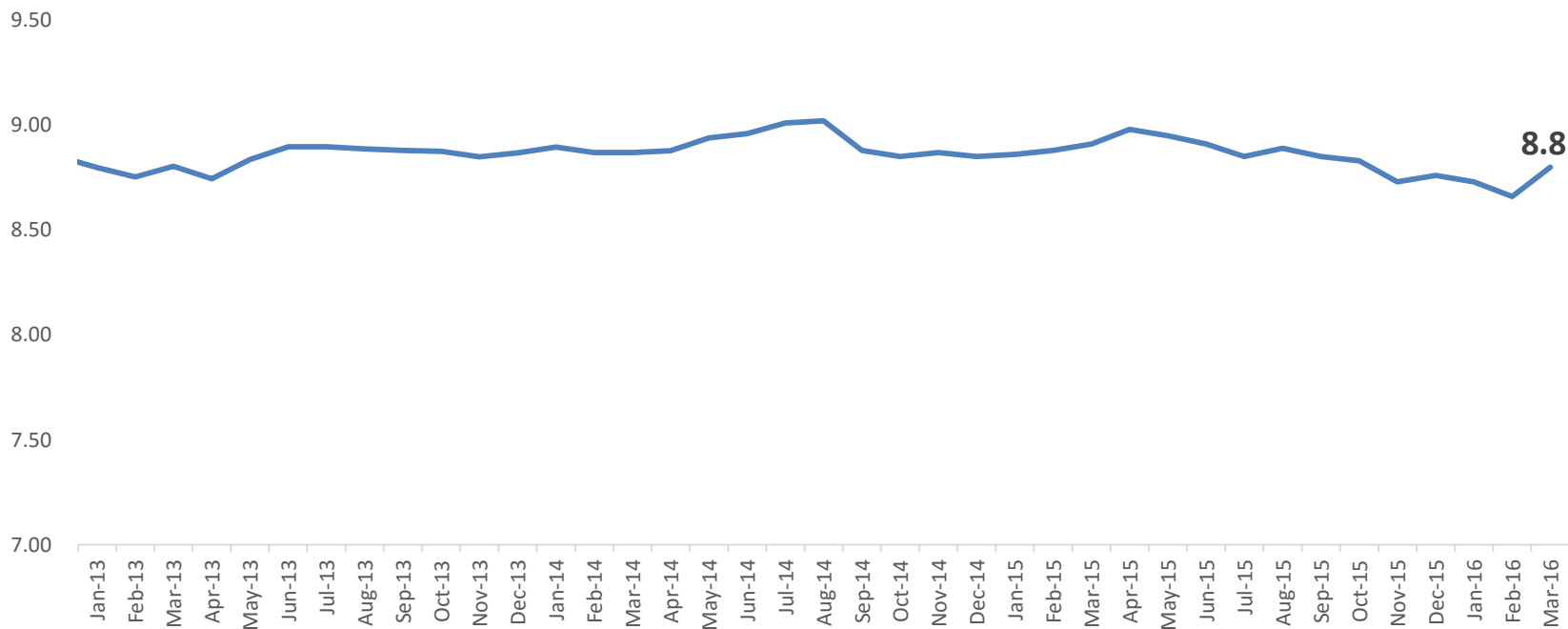


220 innovations
since 2004

DHMS is the top performing open scheme on all measures

What the Vested[®] approach means for DHMS and its members

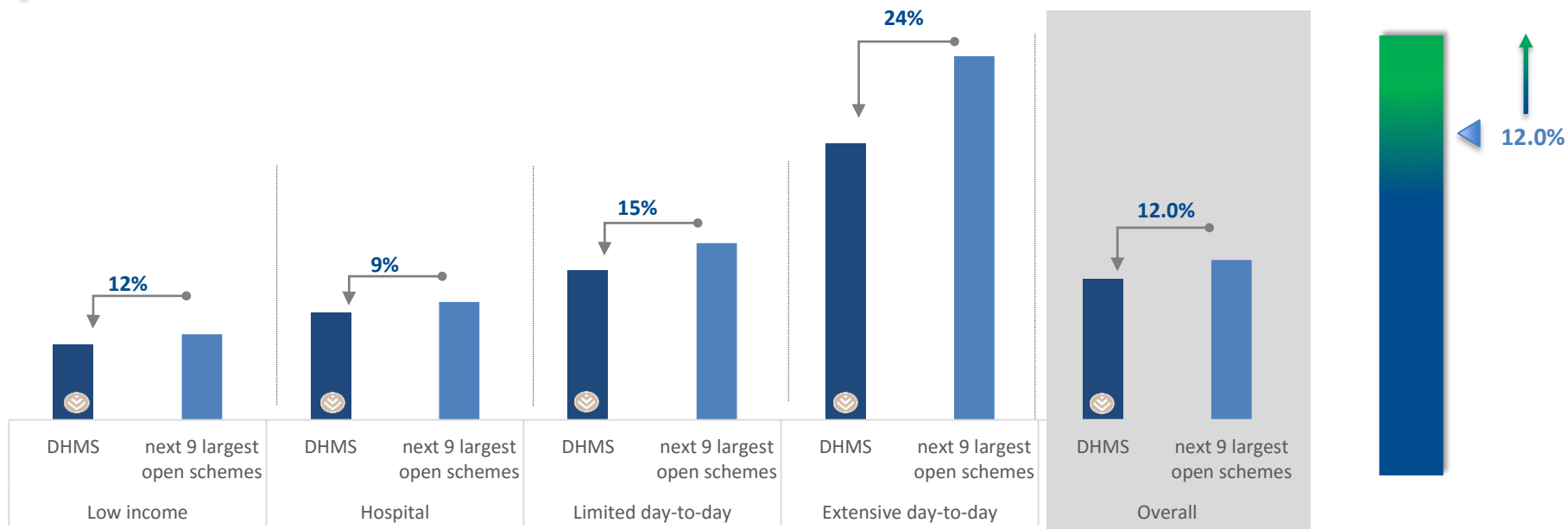
Member perception currently at 8.8 out of 10



What the Vested[®] approach means for DHMS and its members

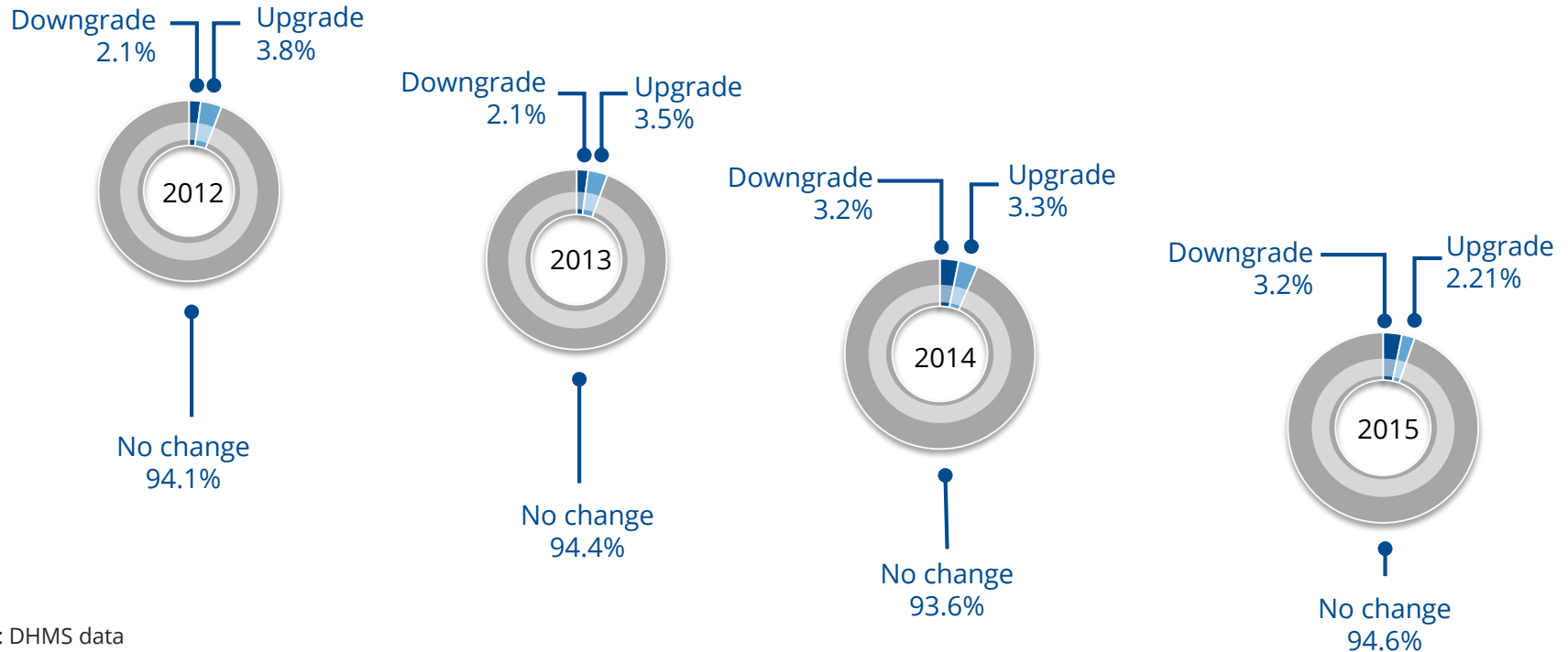
DHMS provides richest benefits and lowest contributions in the market

Average contribution differential for a principal member in 2016



What the Vested[®] approach means for DHMS and its members

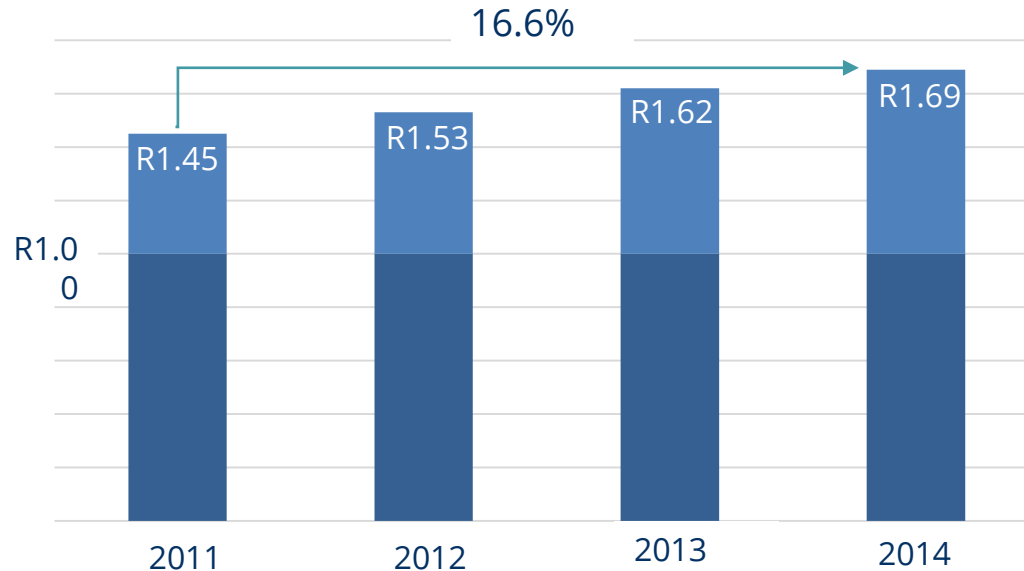
Consistent pattern of stable plan distribution



DHMS and its members continue to receive significant value from Discovery Health



Value generated for DHMS members per R1 of fee paid



For every R1 spent
on managed care
and administration
fees, beneficiaries of
the Scheme derived
R1.69 in value

Managed care has a 230%
return on investment (2015)

¹ Deloitte Value Formula Review, November 2015.

² Per average beneficiary per month.

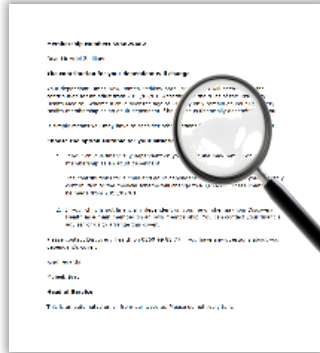
Value Formula based on CMS Annual Report data. Not yet available for 2015-2016.

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Regulatory updates

Health Market Inquiry

Competition
Commission






Department
of Health

NHI White Paper



Council for
Medical
Schemes

CMS Engagements

-  Revised scheme solvency framework
-  PMB Code of Conduct
-  Trustee election process

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Multi-year strategic objectives

Further optimise the Scheme's business model

Ensure best practice governance and legislative compliance

Enhance clinical and other risk management interventions and strategies

Maintain the Scheme's industry leading position and competitive advantage

Make members healthier



We wish all of our members a happy, healthy year ahead!