

Discovery

Health Medical Scheme

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Robust financial and operational performance, in conjunction with best practice governance, entrenches leadership position of Discovery Health Medical Scheme

Opening the Scheme's 19th Annual General Meeting (AGM) Discovery Health Medical Scheme Chairperson, Advocate Michael van der Nest, said the Scheme again experienced strong continued growth in membership, with the industry's lowest lapse rates. The Scheme also exhibited excellent financial strength with over R8.2 billion in members' funds in reserves at the end of 2012.

“Discovery Health Medical Scheme’s strong focus on best practice governance, sound risk management and innovation in product design continues to enhance the Scheme’s leadership position in South Africa, and to ensure excellent value for members,” Van der Nest said.

Key performance highlights for 2012 for the Discovery Health Medical Scheme

- The Scheme again experienced substantial membership growth, increasing principal membership by 6% off an already high base. The Scheme now covers 51% of the open medical scheme industry, enhancing its position as the benchmark open medical scheme in South Africa.
- Discovery Health Medical Scheme achieved positive operating results, with gross contribution income of R35.19 billion and a net surplus (including investment income) of R789 million. Members’ funds in reserve increased by 11% to R8.2 billion.
- The Scheme continued to deliver on its objective of reducing administration fees through ongoing negotiations with Discovery Health (Pty) Ltd, in line with the continued growth of the Scheme. For this reason, administration fees decreased in real terms by 3.0%, during 2012 fees paid by the Scheme to the Administrator increased by 2.6%, compared to the average CPI for 2012 of 5.6%.
- The substantial membership growth during 2012 has placed additional short-term pressure on the Scheme to meet its statutory reserve level – for every new member who joins, the Scheme has to hold 25% of that member’s annual gross contributions in reserve. The Scheme has, however, achieved a solvency level of 23.41% which is slightly lower than the statutory requirement, but ahead of the solvency trajectory agreed with the Council for Medical Schemes. The Scheme is expected to reach the 25% solvency level in 2015 and is well on course to achieve this based on strong performance to date in 2013.
- During 2012, the Discovery Health Medical Scheme continued its commitment to providing its members with rich benefits and the widest plan choices, at the most competitive contributions. The Scheme has expanded access to more affordable healthcare cover to the lower income market in 2013 - the KeyCare plans

now comprise over 460 000 lives.

- The competitiveness of the Scheme's benefits and contributions is demonstrated in both its ongoing strong membership growth, and in the low lapse rate, which reduced from an already low 4.3% in 2011 to 4.1% in 2012.
- The Discovery Health Medical Scheme and its administrator and managed healthcare provider, Discovery Health (Pty) Ltd, have introduced a range of technological and service innovations aimed at ensuring quality of care for members, greater control of costs and the improvement of members' experience in the healthcare system. This includes smartphone applications for members, and the HealthID application for health professionals.
- Global Credit Ratings has once again validated the Scheme's position as one of the most financially secure in the industry in terms of its claims paying ability with an AA+ credit rating. The Scheme has achieved this rating for the past 12 years and is the only open scheme in South Africa that has achieved this rating.

The AGM was well attended by 267 Scheme members, who elected four Trustees in an open and transparent process, to the Scheme's Board. In addition to the four existing Trustees who had made themselves available for re-election, there were 19 high-calibre, eligible nominees representing a broad range of skills and experience. The election process, results and the vetting of proxies, will be overseen by PricewaterhouseCoopers after which the names of the elected Trustees will be announced on the Scheme's website.

Members were also given an overview of the findings of a Discovery Health Medical Scheme Operating Model and Governance Review conducted by independent consulting firm, Deloitte Consulting. This review focused on the overall governance of the Scheme, the effectiveness of the Scheme's operating model, as well as the value for money obtained by members from the Scheme's administrator and managed healthcare provider, Discovery Health (Pty) Ltd. The review by Deloitte Consulting was completed after nine months of work with more than 20 local and global experts providing 5 100 man hours of in-depth analyses.

Overall, the review found the Discovery Health Medical Scheme performing strongly in all key performance areas, and made certain recommendations

where the Scheme should continue to enhance the current operating model in terms of outsourcing best practice. The review identified no governance or transactional failures.

Principal Officer Milton Streak spoke on behalf of the Scheme when he commented on the findings of the review; “The Trustees of Discovery Health Medical Scheme and my office are encouraged by the results of the review, which confirms the Scheme’s strong performance, and importantly, the relevance and success of the integrated operating model we have applied to date. The review shows that for open medical schemes in general, an integrated outsourcing model, as followed by Discovery Health Medical Scheme, incurs on average 15% lower non-healthcare expenses than open medical schemes which outsource administration and managed care to different suppliers.”

The Scheme will continue to enhance its integrated operating model through active collaboration with its administrator.

Further key findings of the review confirm Discovery Health Medical Scheme’s success in providing excellent value to its members. The Scheme was found to outperform all 13 of the comparative open medical schemes in the Deloitte Medical Scheme Performance Model. Deloitte concluded that for every Rand spent by members of the Scheme on administration and managed care fees, members receive between R1.77 and R2.02 in total value. In terms of benchmarking the Scheme’s administration fees, the Review found that the fees paid to the administrator are within one standard deviation of the industry average fees and as such, is not considered a significant outlier to its peers. Although the Scheme’s non-healthcare costs are R11.43 higher per average beneficiary per month (pabpm) relative to the average of the open medical scheme industry, the Scheme’s risk contributions are R158.24 lower than the open medical scheme industry on average. On a net basis, members are therefore R146.81 pabpm better off than the members of other open schemes. In addition, the Review showed that the Scheme experiences 11.70% to 16.58% lower claims compared to the average of the open medical scheme industry on a pabpm basis due to the risk management activities of the administrator.

Discovery Health CEO, Dr Jonathan Broomberg, welcomed the findings of the Review; “We are pleased with the findings of the review as it validates Discovery Health as one of South Africa’s top healthcare administrators in its

management of the country's largest and most successful open medical scheme. In terms of the value offered to Discovery Health Medical Scheme, the Review certainly encourages us to continue investing in building robust and sophisticated systems and healthcare assets that offer the best value in the market to medical scheme members. Together with the Trustees of the Discovery Health Medical Scheme, we recognise the tremendous responsibility of managing the healthcare cover for 2.5 million people, and our significant impact on all stakeholders in the private healthcare system.”

A key value driver for Discovery Health is its ability to innovate continuously in product design and service delivery for the Discovery Health Medical Scheme and the healthcare system in general. This has resulted in the Scheme attracting significant new business, as is evident from two proposed amalgamations tabled at the meeting. Members present voted on two proposed scheme amalgamations with the Discovery Health Medical Scheme, following approaches by the Afrox Medical Aid Society and the Altron Medical Aid Scheme. The Board of Trustees had recommended that both these amalgamations proceed, based on the merits of the amalgamations.

The voting results of the following matters – the election of the Board of Trustees, amalgamations of Afrox Medical Aid Society and Altron Medical Aid Scheme with the Discovery Health Medical Scheme, and motions raised – will be published on www.discovery.co.za following the election and voting vetting process by the Scheme's external auditors.

Ends

Issued on behalf of the Discovery Health Medical Scheme

For media queries please contact:

Mr Duke Malan	+27 11 529 1151
Head of Media Relations, Discovery	dukem@discovery.co.za
Ms Nozuko Basson	+27 11 529 1450
Media Relations Consultant, Discovery	nozukob@discovery.co.za

Discovery information

Discovery is an authorised financial services provider.

Discovery operates in the healthcare cover market in South Africa, the United Kingdom and China; the life assurance market in South Africa and the United Kingdom; as well as the long-term savings and investment market, and short-term insurance market in South Africa.

Vitality, Discovery's wellness programme, is the world's largest scientific, incentive-based wellness solution. It provides individual and corporate wellness initiatives in South Africa, the United Kingdom, the United States of America and China. The global Vitality membership base now exceeds 3.4 million lives.

Discovery's core purpose is to make people healthier, and to enhance and protect their lives through financial products that clients need and want.

South African operations

Discovery Health

- Launched in 1992, Discovery Health is South Africa's largest healthcare funder and manager of medical schemes. It manages 14 medical schemes.
- This includes the Discovery Health Medical Scheme, which has a 50% share in the open medical schemes market, making it South Africa's largest open medical scheme.
- Discovery Health covers more than 2.6 million lives.
- The Scheme is the only one in South Africa to enjoy an AA+ rating for its claims paying ability, the highest possible credit rating from international rating agency Global Credit Ratings.
- The Discovery Health Medical Scheme holds over R7.4 billion in reserves.
- Discovery Health pioneered consumer-driven healthcare in South Africa with the introduction of innovations like the Medical Savings Account and its wellness programme, Vitality.
- Discovery Health is continuously innovating new products and tools to enhance the quality of care members receive, including

HealthID, an iPad-based application for doctors launched in 2012.

- Discovery Health was voted the top medical aid brand in the Sunday Times Top Brands survey for both 2010 and 2011.
- Discovery Health was voted the top healthcare product supplier at the 2010, 2011 and 2012 Financial Intermediaries Association of Southern Africa (FIA) Awards.
- In 2012, the PricewaterhouseCoopers fifth biennial Strategic and Emerging Issues in South African Insurance survey rated Discovery Health's insurance products as the leader in the industry.

Discovery Life

- Discovery Life was launched in 2000 and is South Africa's fastest growing major life assurer in the risk market, having captured 25% of the overall risk broker market.
- It was the first South African insurer to separate risk from investment, leading significant change in the industry.
- With 364 887 individual policies, the embedded value of its business is now more than R17 billion including Discovery Invest.
- Discovery Life addresses the problem of underinsurance through its unique integrated operating model and through innovative product development.
- Discovery Life was voted the top life assurer in the Sunday Times Top Brands survey for both 2010 and 2011.
- Discovery Life was voted the top risk and life assurance supplier at the 2010 Financial Intermediaries' Association of Southern Africa (FIA) Awards and the top long-term insurer: recurring savings at the 2011 and 2012 FIA Awards.
- In 2012, the PricewaterhouseCoopers fifth biennial Strategic and Emerging Issues in South African Insurance survey rated Discovery Life's life products as the leader in the industry.

Discovery Invest

- Discovery Invest was launched in October 2007 and declared its maiden profit in 2010.
- Discovery Invest combines the breadth and skill of the asset

management industry with the existing research and development capabilities of Discovery Life.

- The company offers consumers a unique and comprehensive product range that addresses the current gaps in the market by offering greater protection against poor investment choices.
- With 74 327 policies, Discovery Invest now has more than R26.6 billion in assets under management.
- Through Discovery Invest's LISP platform, clients have access to over 329 local and 65 offshore investment funds.
- Discovery Invest is now the largest writer of endowment policies in South Africa with a 21% market share.
- In 2011, Discovery Invest received the Financial Intermediaries Association of Southern Africa (FIA) award for best recurring premium business.

Discovery Insure

- Discovery Insure was launched in May 2011 and now has 27 973 policyholders.
- This pioneering product was created by leveraging the behavioural expertise developed in the Vitality programme with the latest telematics technology.
- The unique Vitalitydrive programme encourages and rewards better driving behaviour and ensuring that vehicles are roadworthy.
- At the heart of Vitalitydrive is the DQ-Track telematics device that measures and reports crucial aspects of driving behaviour.
- Vitalitydrive provides up to 50% fuel rewards on clients' monthly BP fuel spend.
- Young adults between 18 and 25 can receive further discounts of up to 25% on their motor premiums.
- Discovery Insure offers comprehensive vehicle, personal and household cover.

Discovery Vitality

- Launched in 1997, Vitality is Discovery's science-based wellness programme that underpins each of the Discovery businesses and is an international brand in its own right.
- It is the largest programme of its kind in the world.
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Vitality encourages healthy behaviours that reduce long-term healthcare costs by rewarding members for improving their health.

- There are now more than 1.6 million Vitality members in South Africa.
- Vitality is accredited by the Sports Science Institute of South Africa.
- The Vitality value offering is enhanced by the DiscoveryCard, Discovery's unique Visa credit card which gives members real cash back.
- Launched in 2004, the DiscoveryCard is the largest non-bank card in issue, with an 8.9% share of point-of-sales spend. There are now 231 302 primary cardholders.
- The HealthyLiving™ benefit offers Vitality members up to 25% cash back on HealthyCare™ products at Clicks, HealthyGear™ at adidas and TotalSports stores, and HealthyFood™ items at Pick n Pay.
- Vitality now has the ability to integrate into over 100 fitness tracking technologies.

International operations

United Kingdom

In the UK, Discovery has a 75% shareholding in a joint venture with Prudential plc. Through PruHealth and PruProtect, the company offers healthcare cover and protection products.

PruHealth

- Launched in 2004, PruHealth is the fourth largest private medical insurer in the UK and the only one that rewards people for leading a healthy lifestyle.
- PruHealth now covers 548 970 lives.
- It offers consumer-directed products linked to the Vitality wellness programme.
- In 2010, Discovery acquired Standard Life Healthcare, thereby leveraging the significant assets of both companies and resulting in greater scale for PruHealth.
- PruHealth has won several awards for its product innovations.

PruProtect

- PruProtect, which was launched in 2007, markets consumer-engaged life assurance products in the UK market.
- The company's products integrate with those of PruHealth and Vitality to unlock added value and significant premium savings for clients.
- The company has become a major player in the UK protection market. With 136 164 policies in force, it now covers 163 566 lives.
- PruProtect has received industry recognition, including awards in four categories at the 2011 Defacto Awards. The company was also named Best Individual Protection Provider in 2011 by Professional Adviser, and walked off with the Innovation Award at the 2011 Protection Review.

United States

The Vitality Group

- The Vitality Group was launched in 2007 and offers a stand-alone version of the Vitality programme to self-insured, large employer groups and to healthcare carriers.
- Discovery holds a 75% share in The Vitality Group, 25% being held by Humana Inc.
- The Vitality Group now covers 293 674 lives.
- The Vitality Group has entered into a partnership with Wellness and Prevention, a subsidiary of Johnson&Johnson, the world's premier consumer health company.
- The Vitality Group recently announced a partnership with ADP, one of the world's largest providers of payroll and employee benefits administration solutions.
- In 2011, the group was awarded the C Everett Koop National Health Award for its work with Alcon Laboratories, a highly prestigious award recognising outstanding workplace health improvement programmes.

HumanaVitality

- Launched in 2011, HumanaVitality is a joint venture between

Humana Inc and Discovery (through The Vitality Group) that makes Vitality available to Humana clients with commercial medical plans.

- Discovery holds a 25% share in HumanaVitality.
- Humana is the third largest US insurer, based on revenue. Humana has approximately 11.8 million medical members and 7.7 million specialty members.
- HumanaVitality now has more than 1.5 million Vitality members.

China

Ping An Health

- Ping An Health was launched in China in 2010, after Discovery acquired a 20% share in Ping An Health Insurance Co of China Ltd, a wholly-owned subsidiary of Ping An Insurance (Group) Company of China.
- Ping An Insurance is China's leading insurer and the second largest in the world.
- The joint venture will see Discovery's product innovation and consumer-engaged model exported to a potential market of 83 million families.
- Vitality was launched in China through Ping An Health in May 2012.

Contacts



Felicity Hudson

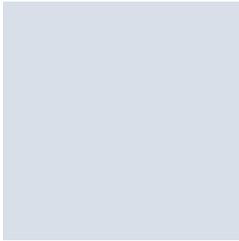
Press Contact

Head of Reputation Management

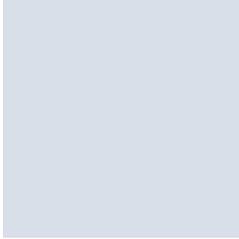
Discovery Group

media_relations_team@discovery.co.za

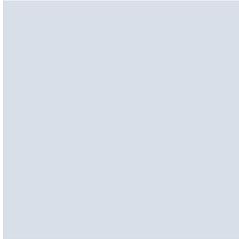
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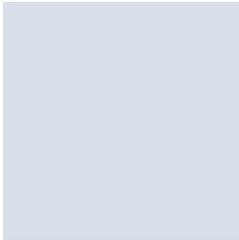
Nthabiseng Chapeshamano
Press Contact
Senior Reputation Manager
Healthcare & Sustainability
nthabisengc@discovery.co.za



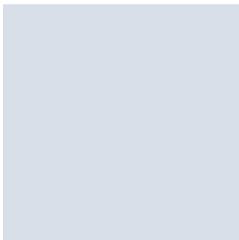
Munene Khoza
Press Contact
Senior Reputation Manager
Vitality & Wellness
munenek@discovery.co.za



Zeenat Moorad
Press Contact
Senior Reputation Manager
Banking & investments
zeenatm2@discovery.co.za



Shanti Aboobaker
Press Contact
Reputation Manager
Long and short term insurance
shantia@discovery.co.za



Gugu Yika
Press Contact
Reputation Management Consultant
Vitality & Sponsorships
guguy@discovery.co.za
0115298083