



FOR THE
BENEFIT OF OUR
MEMBERS //

2014 Annual General Meeting
6th June 2014

Agenda

1. Welcome and quorum

2. Minutes of the Discovery Health Medical Scheme 2013 Annual General Meeting – for approval

3. 2013 Annual Financial Statements

3.1 Financial performance of the Discovery Health Medical Scheme for the year ended 31 December 2013

3.2 Discovery Health (Pty) Ltd strategic focus areas

3.3 Acceptance of Discovery Health Medical Scheme 2013 Annual Financial Statements

4. Governance

4.1 2014 Trustee remuneration

4.2 Confirmation of Trustee appointment

4.3 Appointment of Auditors

5. Motions

6. General

7. Closure

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2014 Annual General Meeting
6th June 2014
Milton Streak, Principal Officer

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1	Continued sustainable growth
2	Financial strength and sustainability
3	Managing the cost of care
4	Operating and service performance
5	Governance

DHMS Key Measures

Measure	2012	2013	% change
Gross Contribution Income (R'000)	35 195 627	40 463 701	14.97%
Number of members at year end	1 140 090	1 191 987	4.55%
Number of lives at year end	2 469 023	2 564 313	3.9%
Open scheme market share	51%	52%	1.96%
Surplus (R'000)	788 790	1 534 500	94.54%
Solvency reserves per Regulation 29 (R'000)	8 240 820	9 833 452	19.33%
Solvency	23.41%	24.30%	3.80%

Financial performance:

Statement of Comprehensive Income

Income Statement	2012 (R'000)	2013 (R'000)
Gross contribution income	35 195 627	40 463 701
Less Savings contribution income	(6 969 850)	(7 953 882)
Net contribution income	28 225 777	32 509 819
Relevant healthcare expenditure	(23 093 400)	(26 230 531)
Gross healthcare result	5 132 377	6 279 288
Managed care: management services	(991 216)	(1 101 009)
Broker service fees	(755 803)	(825 263)
Expenses for administration	(3 084 814)	(3 340 754)
Other operating expenses	(113 365)	(152 486)
Net healthcare result	187 179	859 776
Net investment and other income*	601 611	674 724
Net surplus for the year	788 790	1 534 500

* Includes interest paid and asset management fees

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DHMS continues to maintain strong membership growth

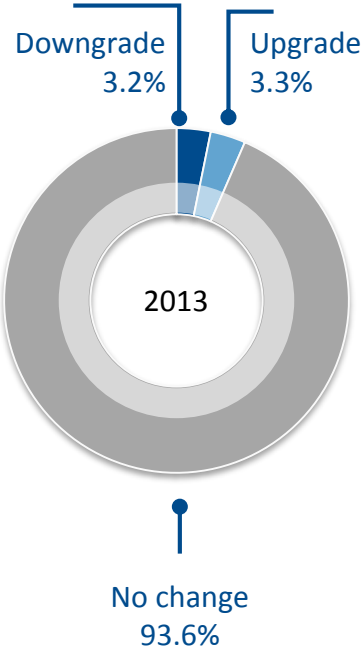
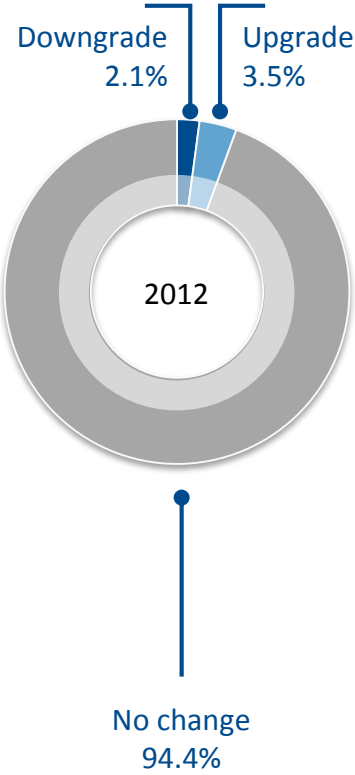
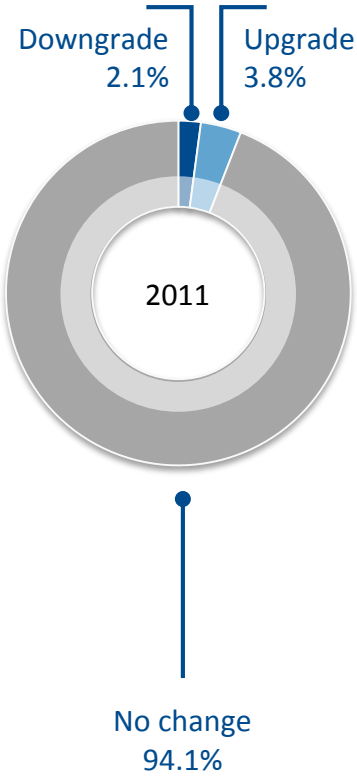
DHMS lives covered



Source: DHMS data

Consistent pattern of stable plan distribution

Stability in plan movements

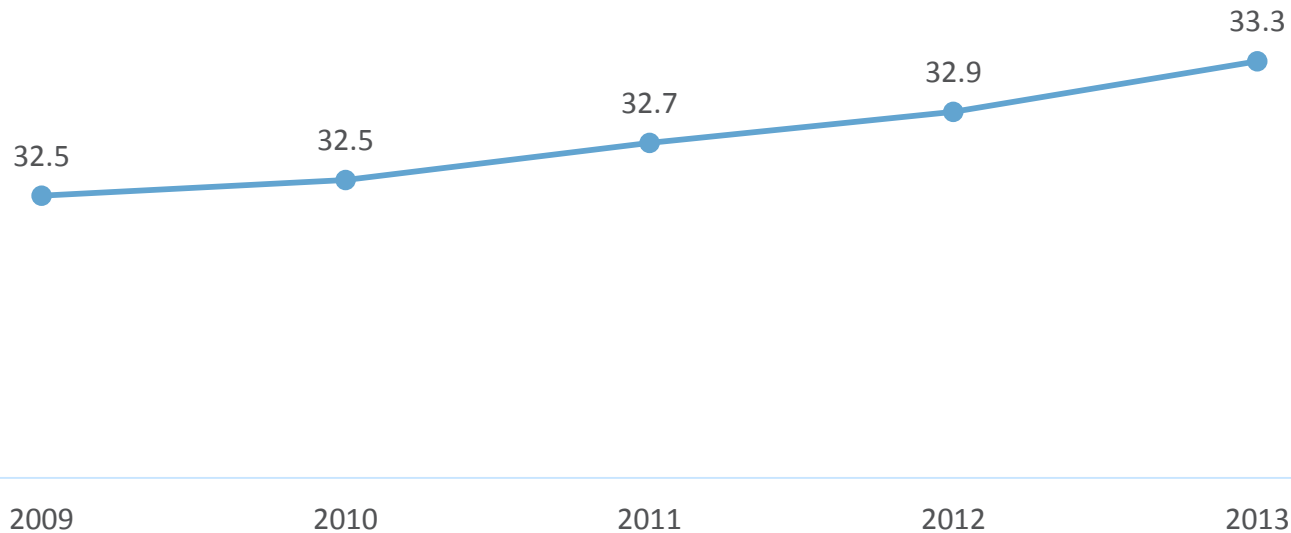


Source: DHMS data

Continued ability to attract relatively young members impacts positively on age profile

DHMS is approximately one year younger than the industry average

Every year increase in scheme age results in 1.5% to 3% increase in member contributions

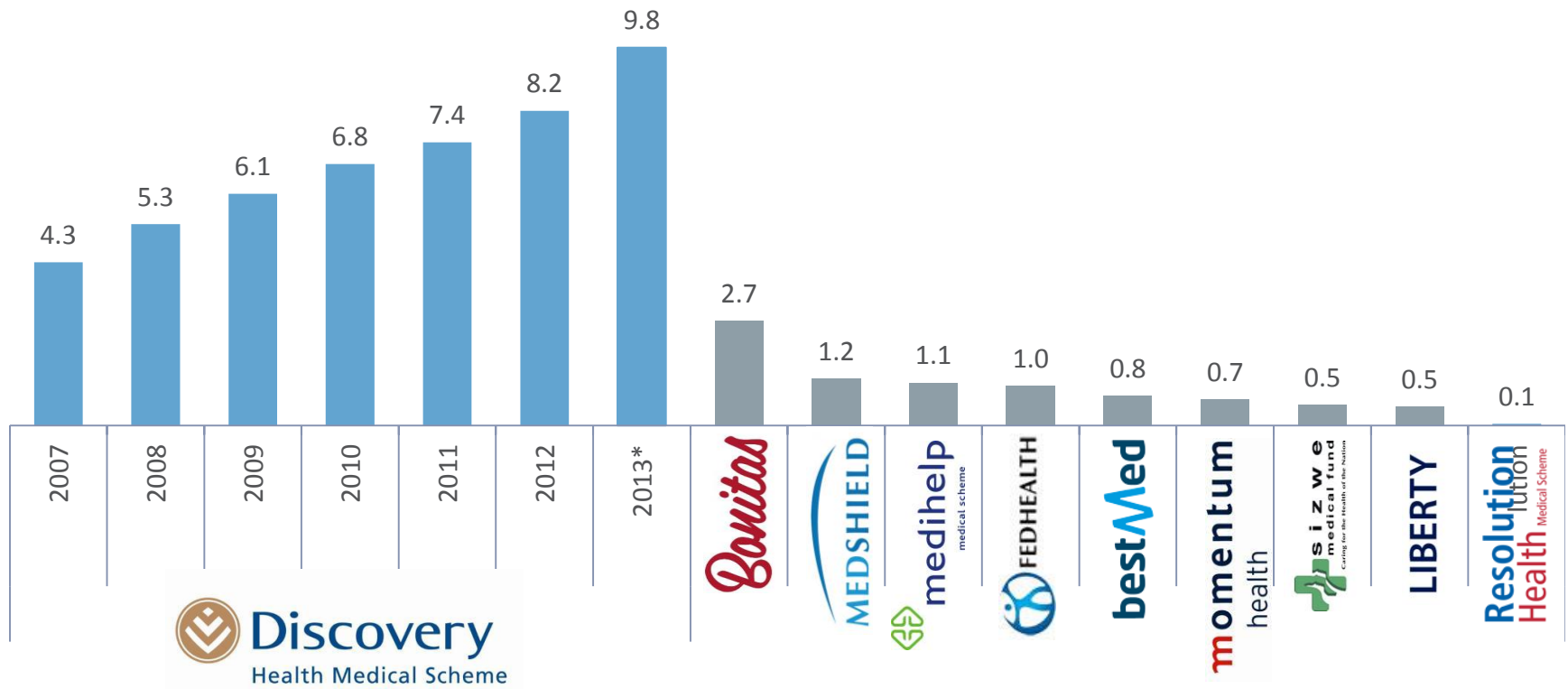


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R1.6bn added to reserves in 2013

DHMS reserves are higher than the next nine largest open schemes combined



 **Discovery**
Health Medical Scheme

DHMS has maintained the highest possible credit rating for 14 consecutive years

DHMS maintains AA+ credit rating ...

... confirming the high level of financial strength and stability

GCR rating

Medical Schemes

AA ⁺	Discovery Health Medical Scheme
AA	
AA ⁻	Medihelp Fedhealth Medshield Bonitas Momentum
A ⁺	Liberty
A	Sizwe
A ⁻	
BBB ⁺	
BBB	
BBB ⁻	Resolution

GCR Global Credit Rating Co.
Local Expertise • Global Presence

First Floor, Block A,
Wanda Court,
107 Aban Avenue,
Sandton, 2146
Tel No. +27(11) 784-1771
Website: www.globalratings.net

CREDIT RATING ANNOUNCEMENT

GCR affirms Discovery Health Medical Scheme's rating of AA+(2A); outlook Stable

Johannesburg, 09 Apr 2014 – Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Discovery Health Medical Scheme of AA+(2A); with the outlook accorded as Stable.

RATING RATIONALE

Discovery Health Medical Scheme ("DHMS") was incorporated in 1996 and has since established itself as the largest scheme in the domestic open medical scheme industry, covering in excess of 2.5m beneficiaries as at year-end 2013. The scheme continues to be administered by Discovery Health (Pty) Ltd, which in turn is wholly owned by Discovery Holdings Limited. Significant rating support is derived from DHMS's position as the unrivalled market leader in the South African open medical scheme industry, with 52% of total principal members covered by the scheme as at 30 F13. This is aided by the scheme's strong brand value, comprehensive option portfolio and the effective leveraging of the voluntary vitality wellness programme. Collectively, this continues to support sound membership growth and ensures high levels of member retention. In addition, the strong level of reserves displayed in absolute terms, with member reserves rising consistently over the review period to a historical high of R18bn as at FYE13. Although the statutory solvency margin continued to trail the CMT's regulatory minimum of 25% slightly as at FYE13, a notable improvement was evidenced year-on-year. In context of the relative conservatism of forecasts submitted, this suggests statutory compliance by the FYE15 deadline committed to in the CMT's business plan. Further, driven by a sustained refinement of claims management protocols, the scheme's claims ratio has persistently trended below the industry average. Coupled with increased cost efficiencies, this has seen DHMS increase its net healthcare surplus more than fourfold to F13 (with positive net healthcare results reported in 3 of the last 5 years under review), with a further sound net healthcare surplus forecast for F14. Further note is taken of the consistent high degree of contribution predictability and operational budget attainment displayed.

The conservative investment stance applied continues to support key liquidity metrics at sound levels. Over the short to medium term, management does not foresee the current investment strategy changing materially. In terms of business origination, the member pool remains well diversified, with no undue broker or client concentration evidenced. Further, the scheme's average member age profile continues to track below that of the open medical scheme industry, which serves to underpin the scheme's favourable claims experience. In consideration of prevailing characteristics in the South African medical schemes arena, the industry rating ceiling remains capped at AA+(2A). In the absence of a revision thereof, an upward adjustment of the scheme's rating (which constitutes the highest rating an open or closed medical scheme currently can be awarded by GCR) is considered unlikely over the short to medium term. Conversely, downward rating pressure may arise from a combination of any of the following factors including a) a severe and sustained loss of membership (accompanied by a notable deterioration in the average member age profile); b) a marked decline in the members' surplus and subsequent weakening of the statutory solvency margin to a level notably below historic norms and c) the adoption a more aggressive investment strategy (likely unduly compromising key liquidity metrics).

NATIONAL SCALE RATINGS HISTORY

Initial rating (Apr/2000)
Claims paying ability: AA-(2A)
Outlook: Stable

Last rating (May/2013)
Claims paying ability: AA-(2A)
Outlook: Stable

ANALYTICAL CONTACTS

Primary Analyst
Benjamin Schmidt
Senior Credit Analyst
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schmidt@globalratings.net

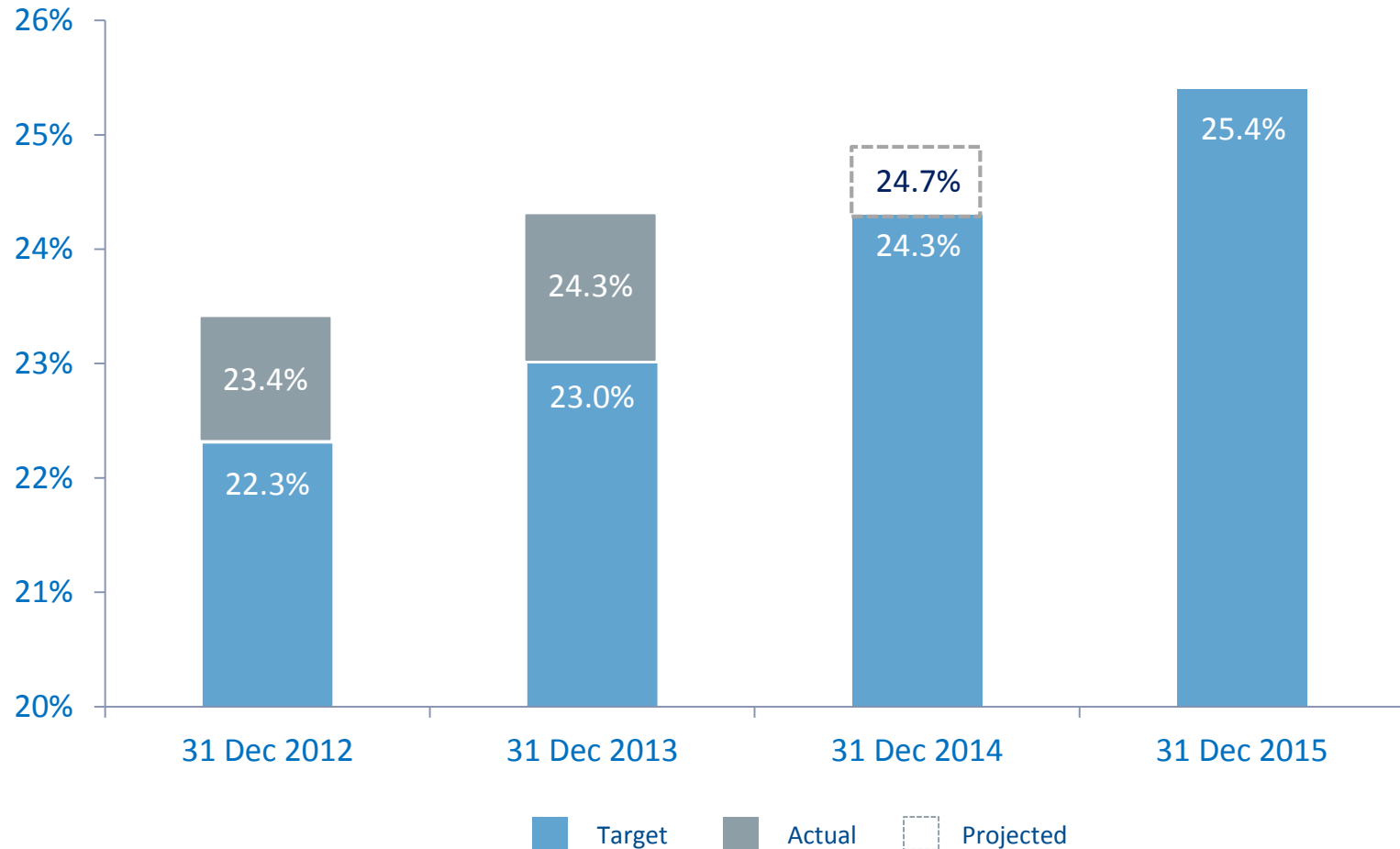
Committee Chairperson
Marc Chadwick
Sector Head: Insurance
+27 11 784 1771
chadwick@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

[GCR's Global Medical Criteria for Rating Medical Schemes](#)

DHMS is well ahead of solvency plan and will achieve statutory 25% solvency margin by 2015

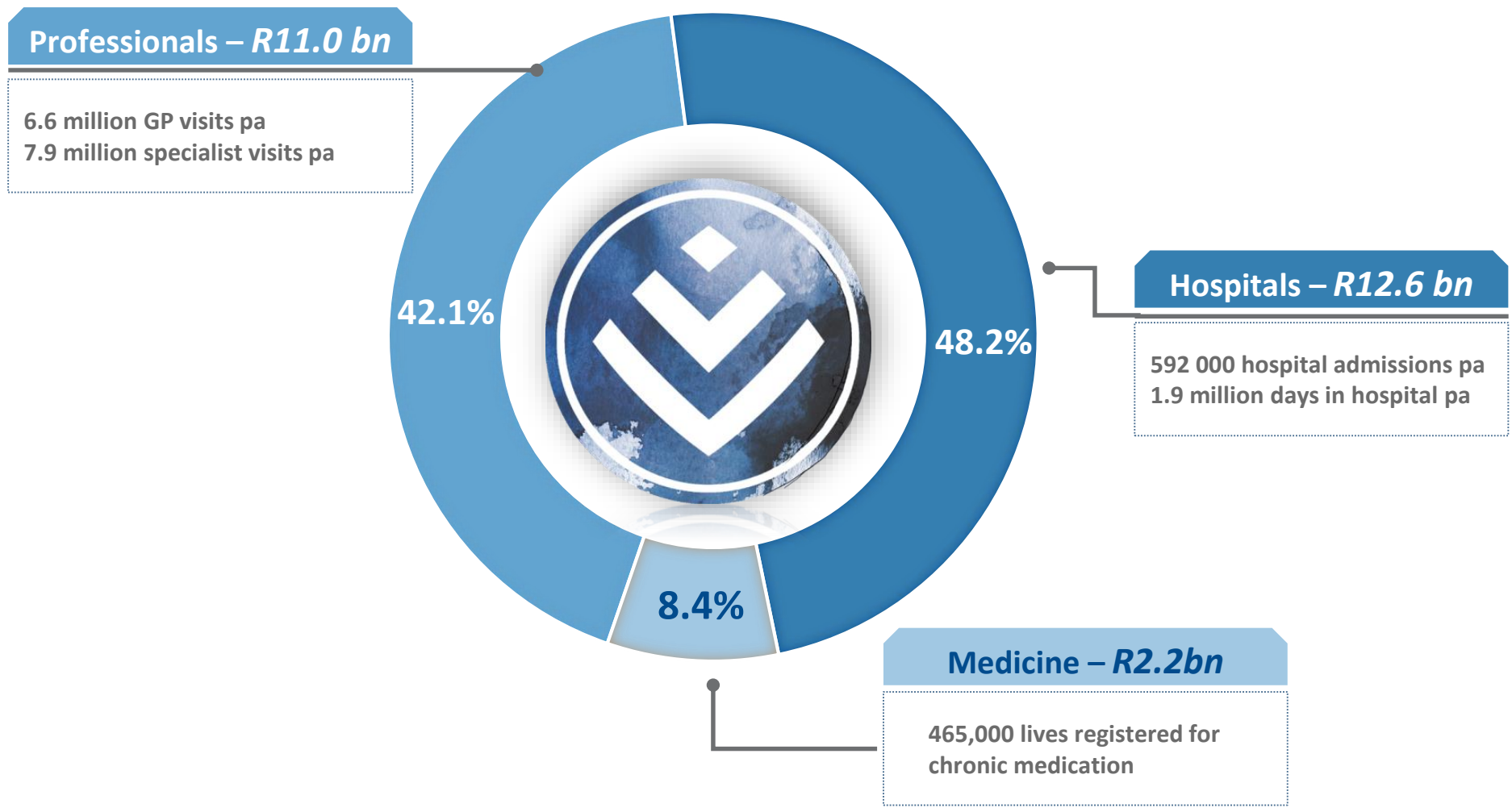
Solvency Plan



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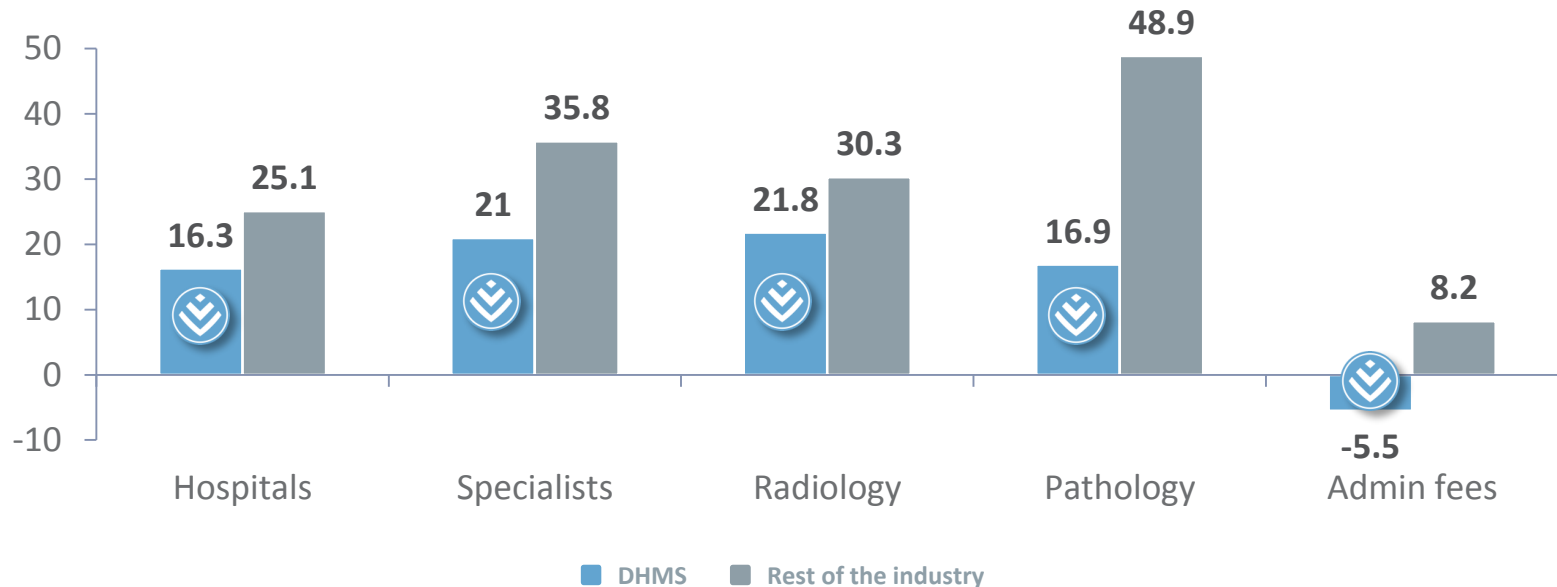
Breakdown of DHMS claims expenditure of R26.3 billion



Please Note: Disparities in claims expenditure attributable to Ex-gratia Payments (R17m) and Risk Transfer Arrangements (R297m)

DHMS has lower costs of care than all other open schemes

% Growth in pabpm costs (2008 – 2012)



Significant **price and contract advantage** in hospitals and pathology



Superior **risk management** across all claims lines

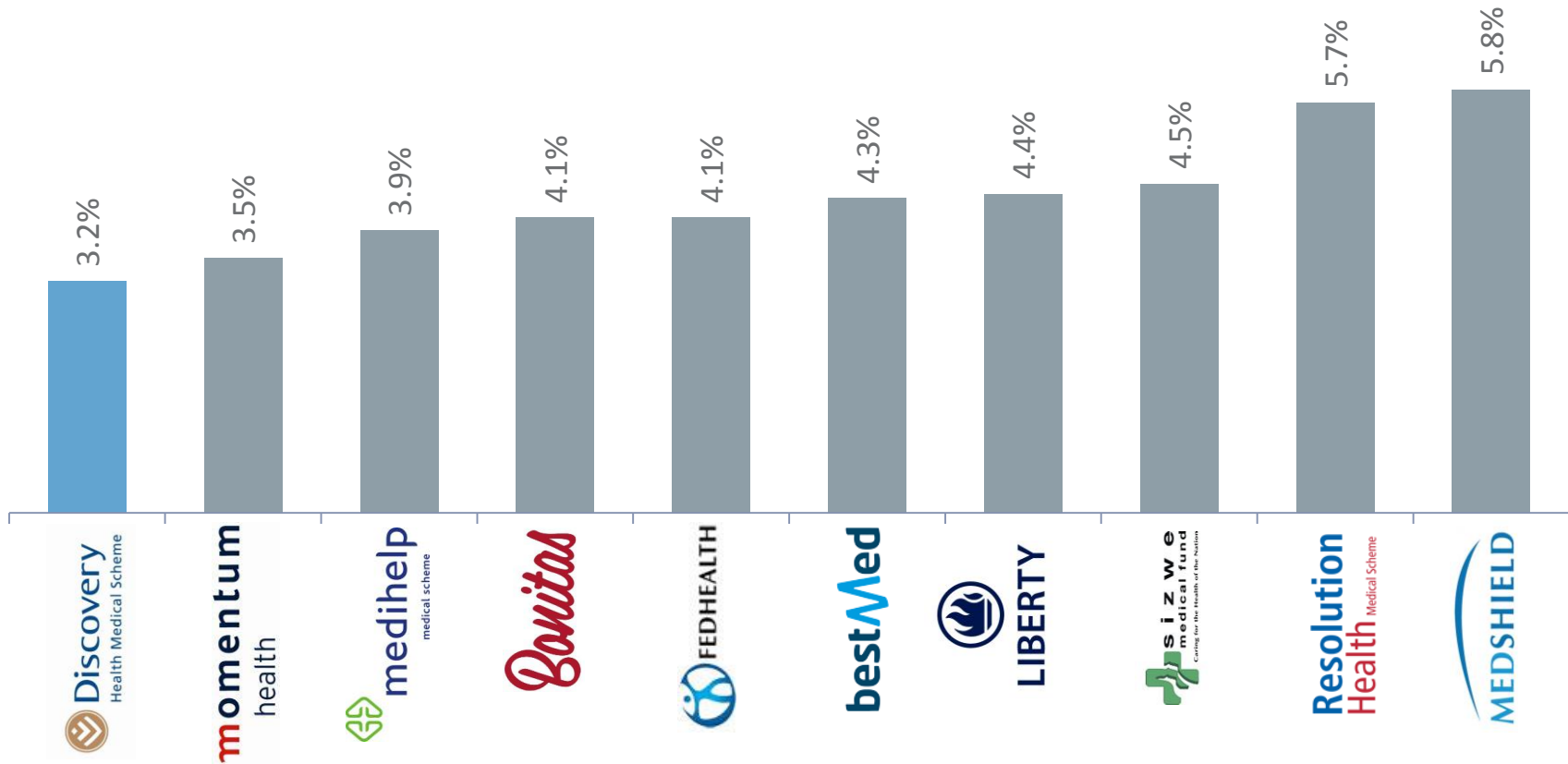


Impact of **Vitality**

DHMS has the lowest cost inflation in the industry

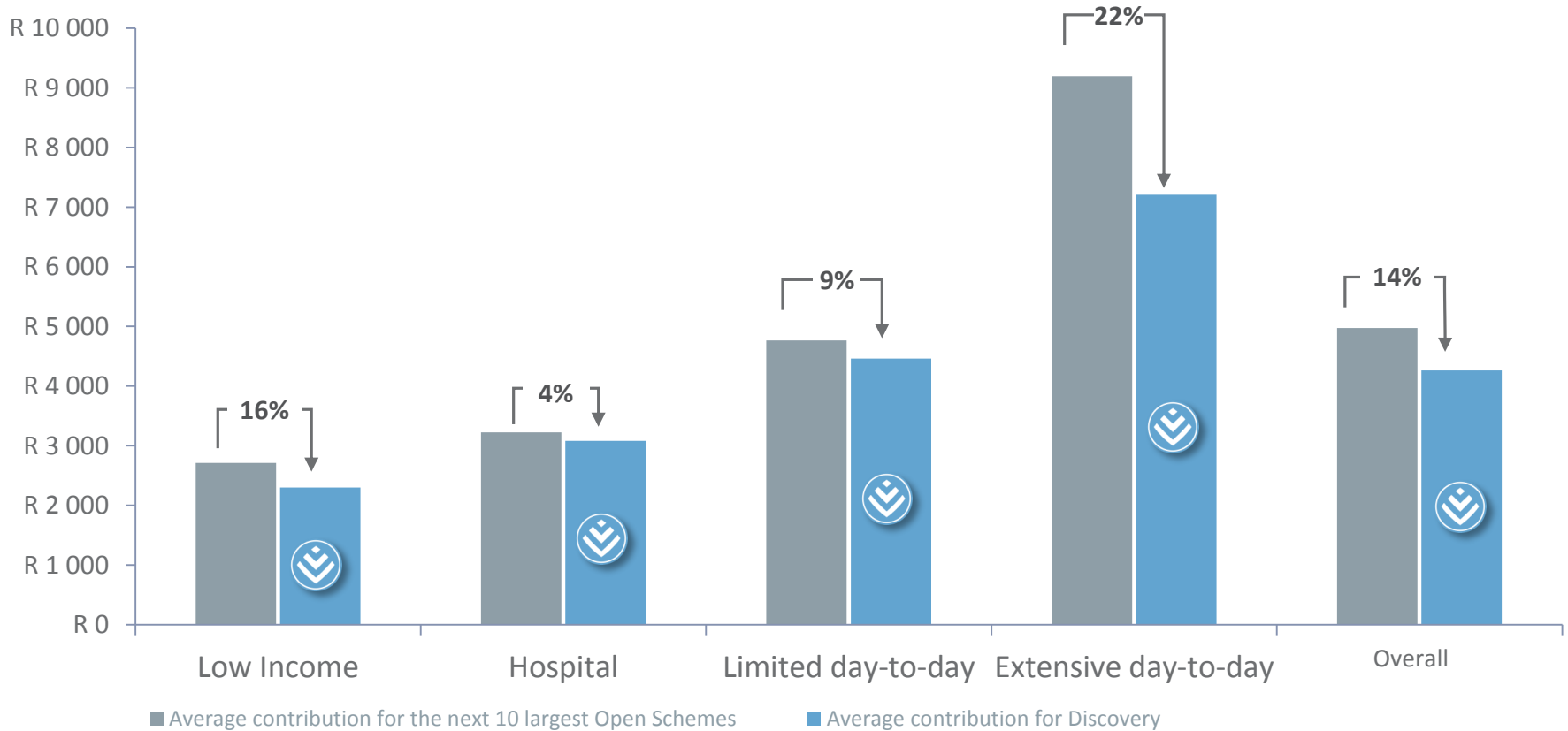
DHMS annual contribution increases consistently lower than other open schemes since 2008

% annualised contribution increases relative to CPI (2008 – 2014)



DHMS contributions are lowest across all plan types

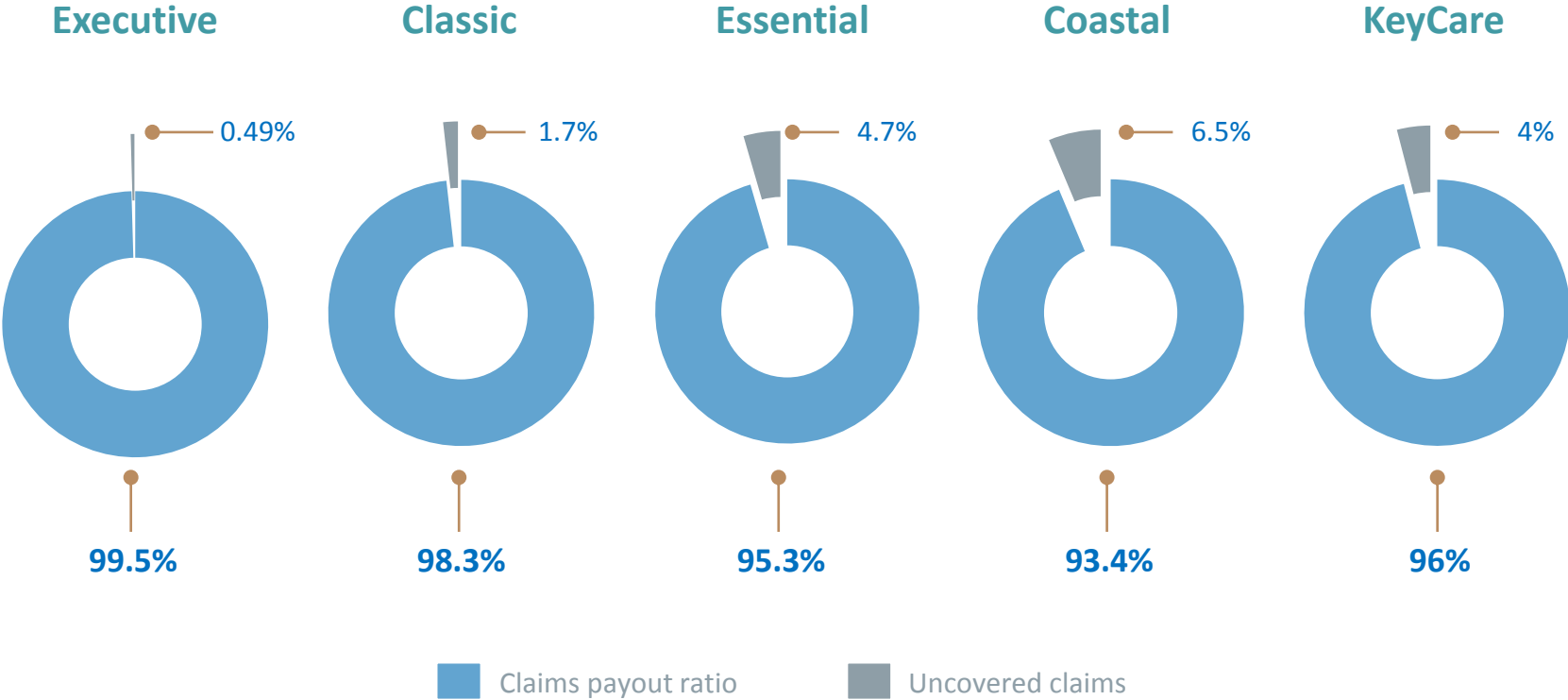
Average 2014 contribution for a family of four



DHMS members average 14.3% lower contributions than the market

DHMS benefits focus on comprehensive cover for critical care

In-hospital claims payout ratios (including medical specialists)



Source: DHMS data

Top 10 claims exceed R70m in 2013

Top 10 claims

1	R4.7m	68 year old Classic Comprehensive Abdominal aortic aneurism
2	R4.3m	81 year old Classic Comprehensive Intracranial Injuries
3	R3.7m	52 year old Classic Saver Respiratory distress syndrome
4	R3.6m	23 year old Classic Comprehensive Acute myocardial infarction
5	R3.6m	51 year old Executive Respiratory distress syndrome

6	R3.5m	38 year old Classic Comprehensive Multiple myeloma
7	R3.4m	68 year old Executive Congestive heart failure
8	R3.1m	66 year old Classic Comprehensive Injury of the liver
9	3.1m	30 year old Classic Comprehensive Congestive heart failure
10	R3.0m	55 year old Classic Comprehensive Respiratory distress syndrome

The value of cover provided by KeyCare

KeyCare Access



- 29 year-old female
- Joined KeyCare
- Monthly contribution: R490



- Minibus taxi overturned on her way to work on 19 January
- Suffered fractures in the lower leg
- Had paid contributions of R490 at date of incident



- Rushed to Carstenhof Clinic - not a KeyCare facility, but member treated and stabilised there, in line with emergency care protocols



- Transferred to Rand Clinic the next day and underwent surgery
- Discharged on 23 January and is recovering well

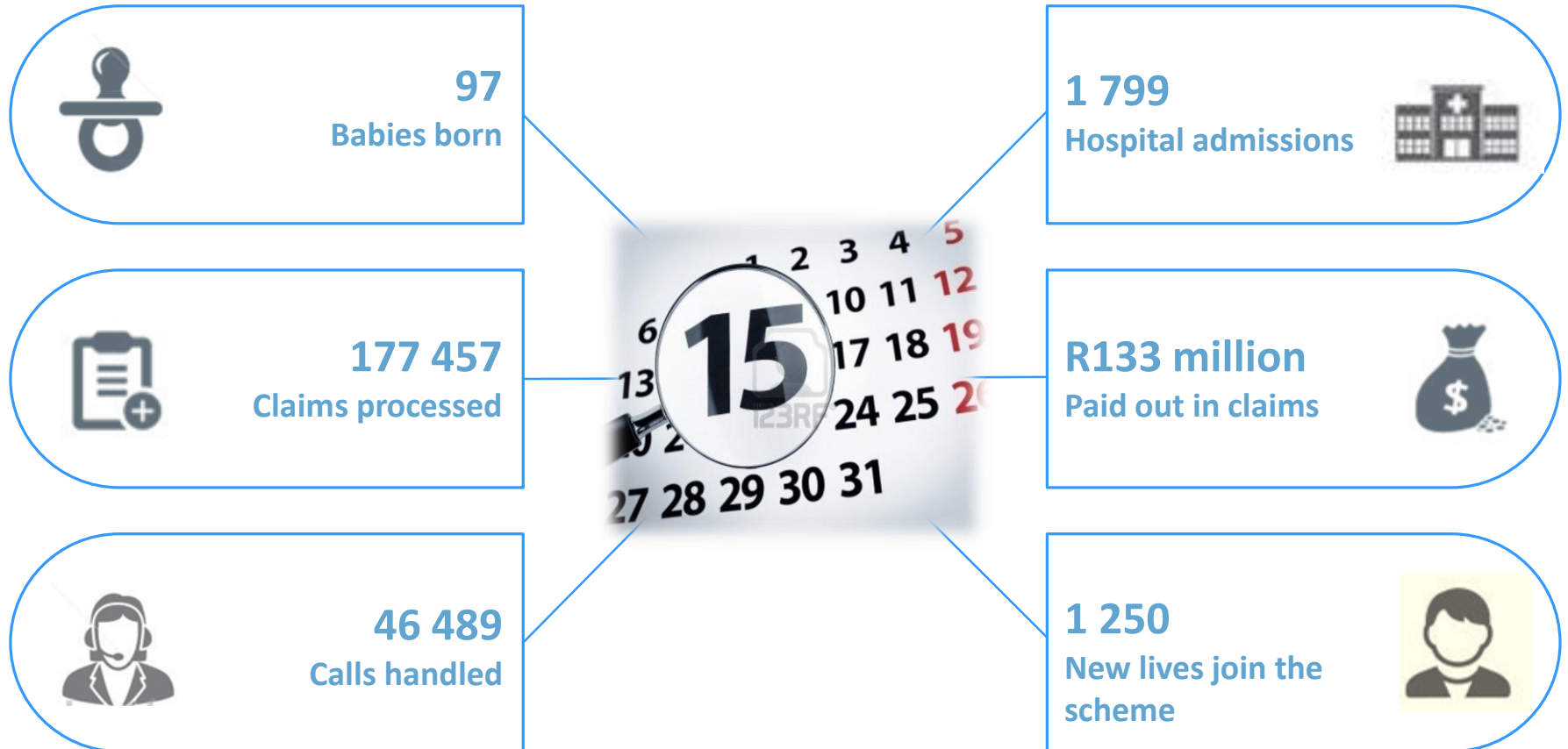
The member would have had to pay R61 018 for hospital admission herself if she had not been on a medical scheme. Individuals who earn R6 000 or more per month are liable to pay medical costs even in a public hospital

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Scale of Discovery Health Medical Scheme operations

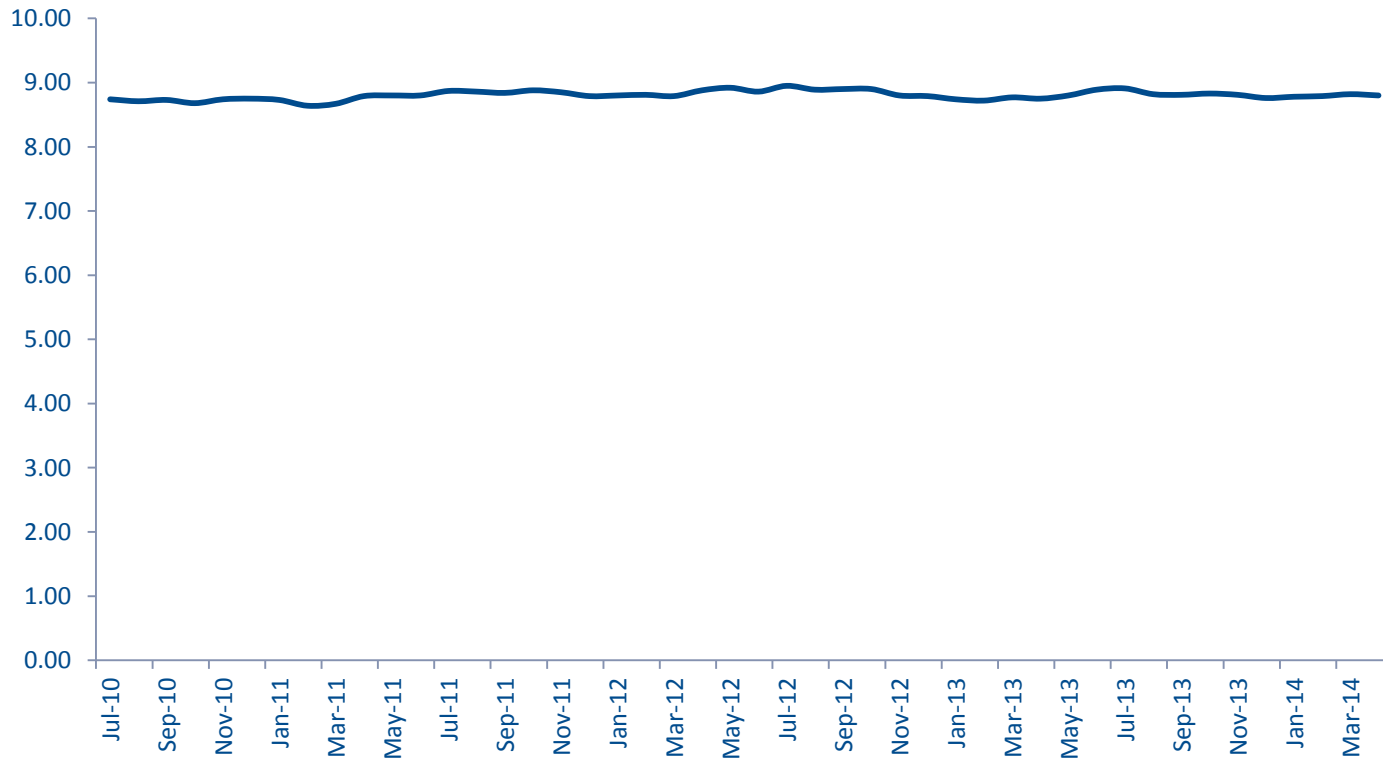
In every working day



Continuous measurement of service performance

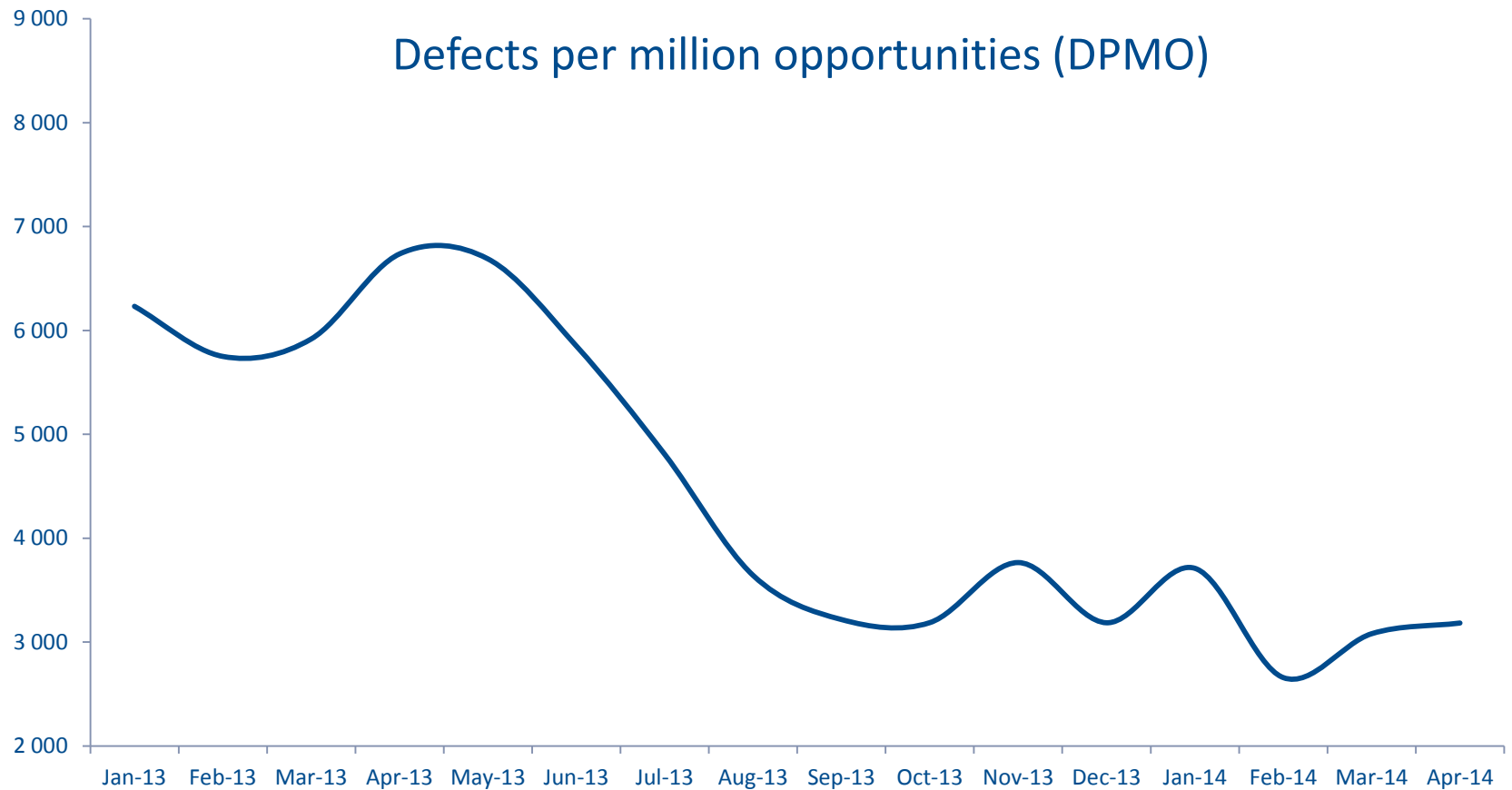
High member perception

Electronic Member Based Research (EMBR)



Continuous measurement of service performance

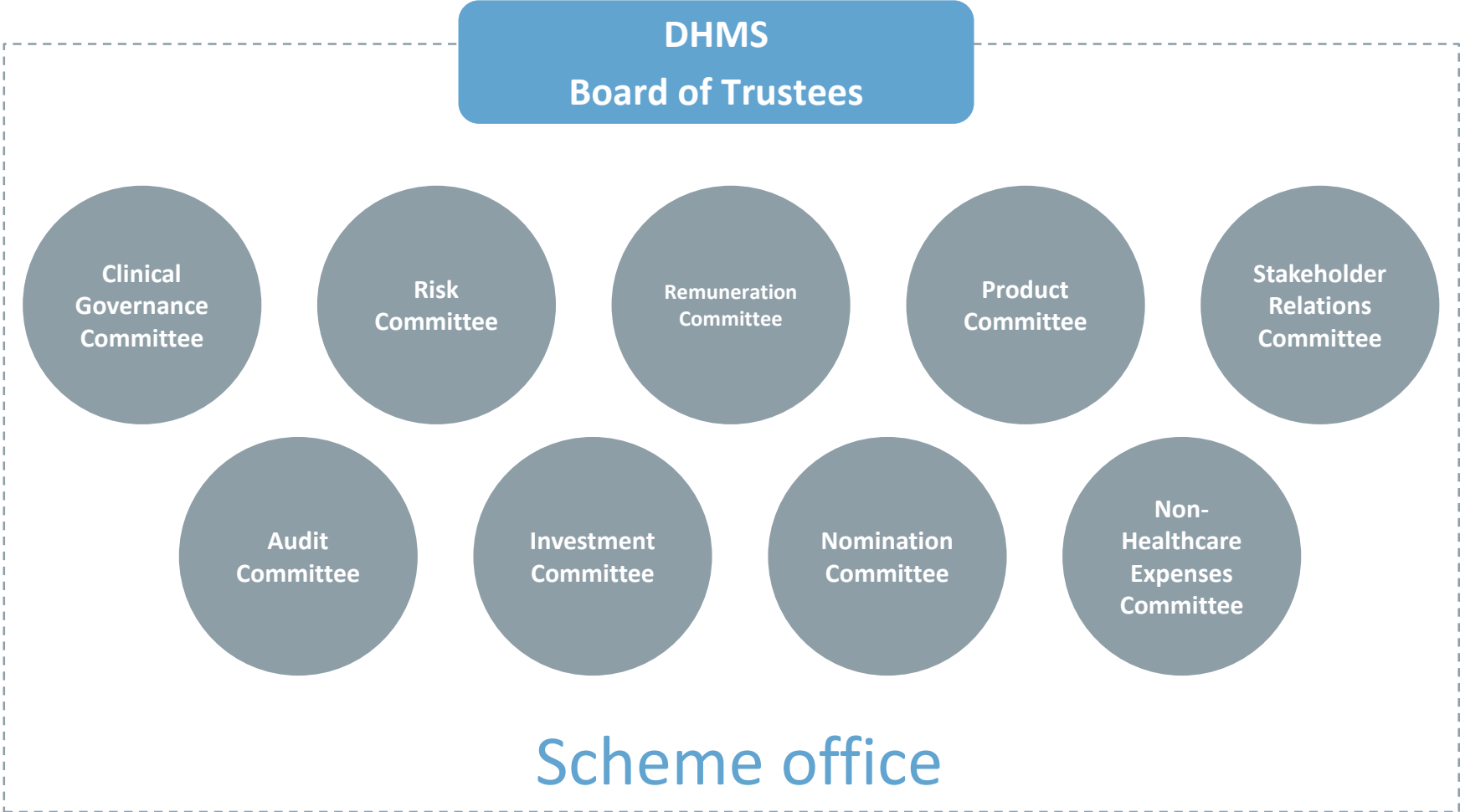
Quality improving



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DHMS Governance



Discovery Health Medical Scheme Board of Trustees



Mr Michael du Plessis van der Nest (SC)

Chairman

Occupation: Senior Counsel

BA (Law) LLB - University of Stellenbosch



Mr Noel Graves (SC)

Trustee

Occupation: Senior Counsel

BA LLB (UCT)



Prof. Zephne van der Spuy

Trustee

Occupation: Emeritus Professor of Obstetrics and Gynaecology, UCT

MBChB (Stellenbosch), MRCOG, FRCOG (Royal College of Obstetricians and Gynaecologists), PhD (University of London), FCOG (SA) (SA College of Obstetricians and Gynaecologists)



Mr Puke Maserumule

Trustee

Occupation: Founder & Chairman: Maserumule Inc.

BA (Law) LLB (UCT), Post Graduate Diploma in Labour Law (UJ)



Mr Giles Waugh

Trustee

Occupation: Actuarial Consultant

FIA (Fellow of the Institute of Actuaries UK) FASSA (Fellow of the Actuarial Society of South Africa)



Ms Daisy Naidoo

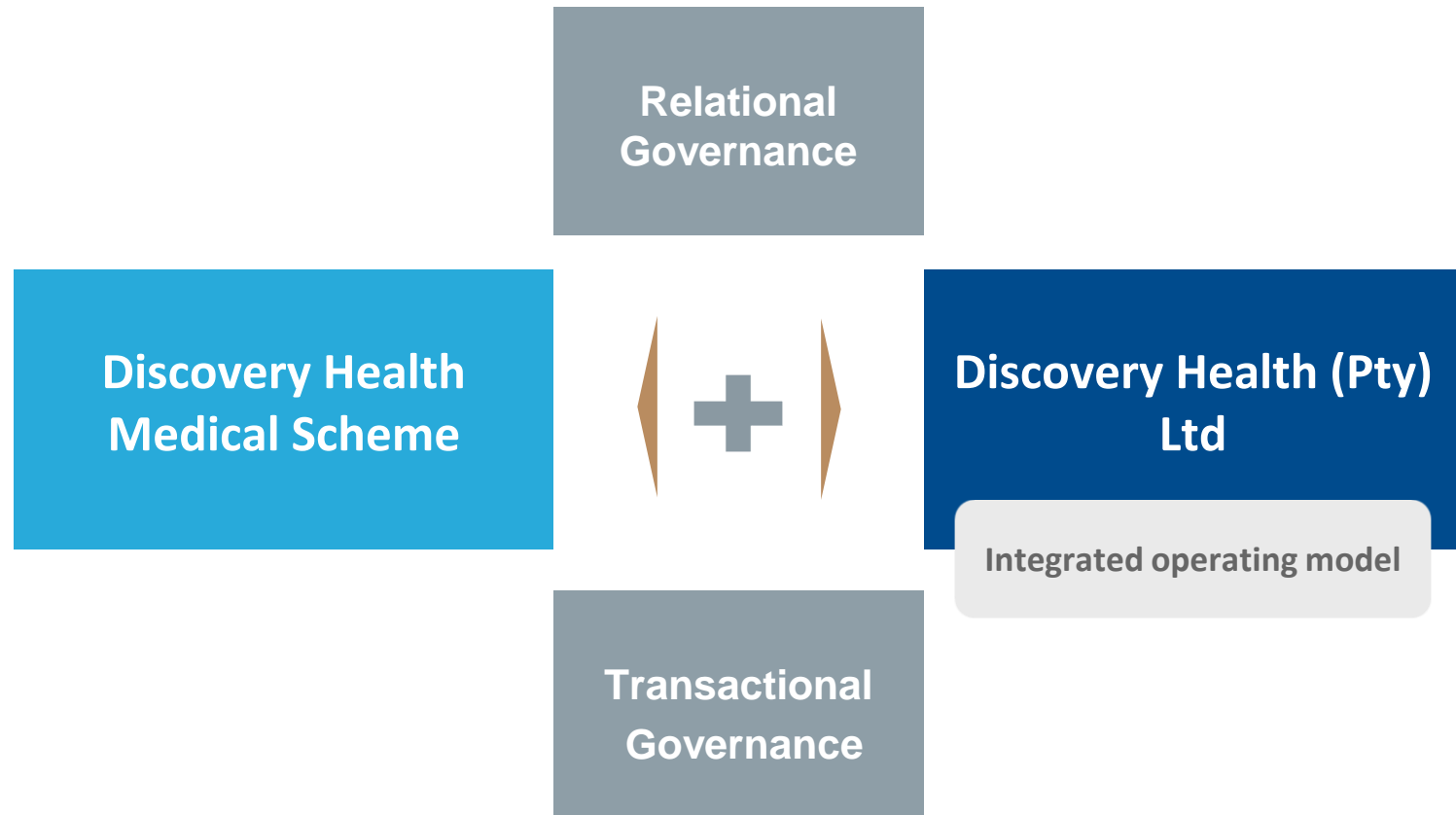
Trustee

Occupation: Chartered Accountant

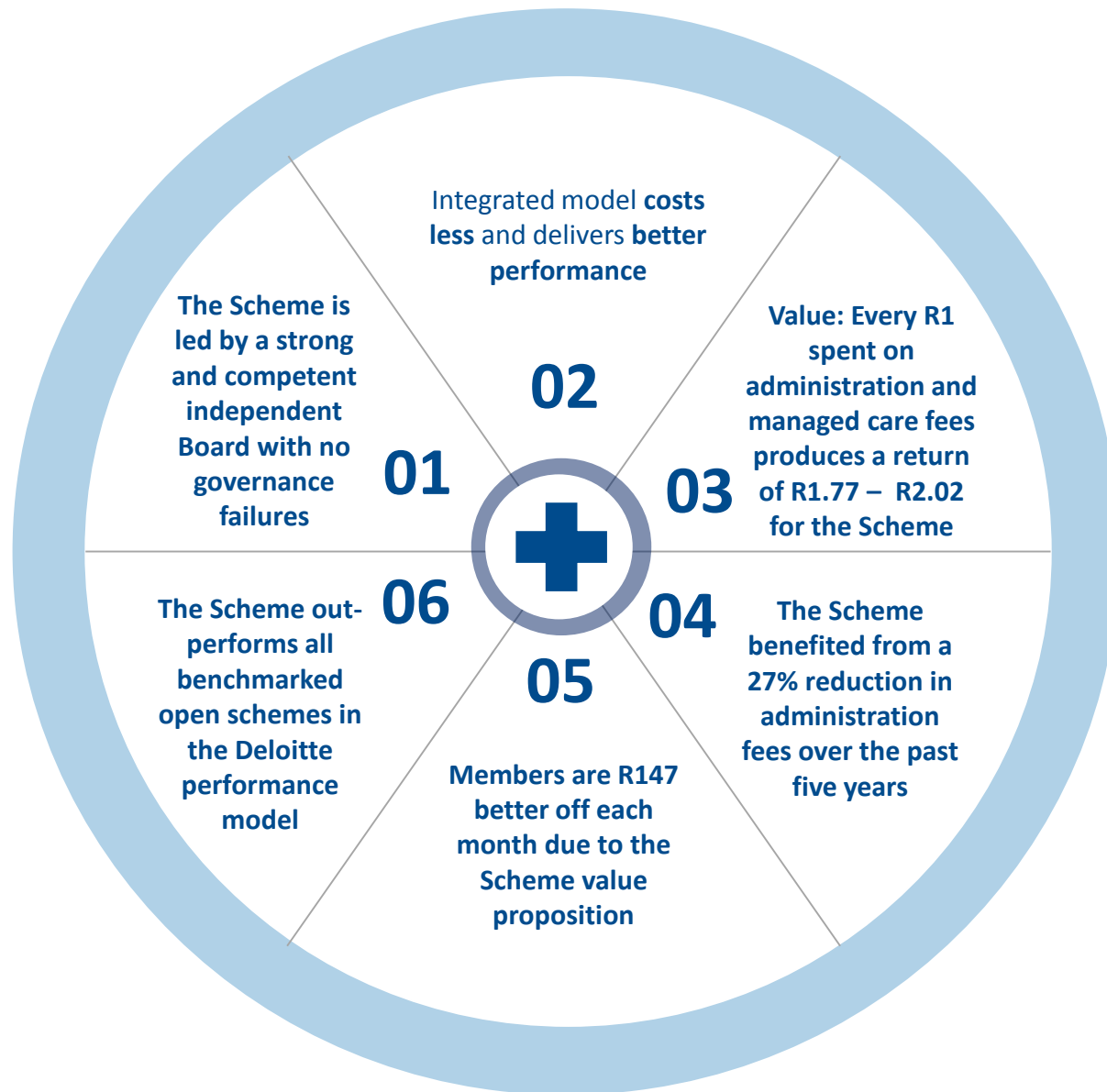
CA(SA), Masters of Accounting (Taxation)

Best practice governance in outsourcing business models

Governance model



Deloitte main findings of the operating model and governance review of the Scheme



Scheme Actions

Relational Governance	
DHMS action	Date
Improve assurance model	
Dedicated compliance manager	Assigned 2012
Dedicated risk manager	Implemented 2013
Revised risk management process	Implemented 2013
Independent audit of risk management	Implemented 2013
Revised Combined Assurance Framework	Implemented 2013
Enhance stakeholder engagement	
Enhance framework and strategy	Implemented 2013
Independent communications consultant	Appointed 2013
Enhanced marketing reporting	Implemented 2013
Establish Stakeholder Relations Committee	Established 2013
Enhance oversight capacity of Scheme office	
Succession planning	Ongoing
Assessment of resource requirements	Completed 2012
Appointment of Chief Financial Officer	Appointed 2012
Appointment of Chief Risk and OPS Officer	Appointed 1 January 2014
Administration and Managed Care contracts	
Align with outsourcing best practice	Negotiation in progress
Align service level agreements with best OPS practice	Negotiation in progress

Transactional Governance	
DHMS action	Date
Evaluation of economies of scale	Ongoing ; Annual
Evaluation of non-healthcare expenses	Ongoing ; Annual
Value-for-money analysis	Ongoing ; Annual

Operating Model	
DHMS action	Date
Continue to enhance operating model through active collaboration with DH	Ongoing
Continue to align with outsourcing best practice	Ongoing
Maintain balance of power through governance best practice	Ongoing

Strategic Priorities for 2014

The Scheme will focus on the following key strategic objectives during 2014

01

Further enhance
the Scheme's outsourcing
business model based on
international outsourcing
best practice principles

02

To maintain the
Scheme's industry
leadership position
and competitive
advantage

03

Continue to provide
rich benefits and
contribution
stability across the
product range

04

Continued investment in
a unique and superior service
experience for Scheme
members and healthcare
providers at every touch point
in the healthcare system

05

Facilitate the
continuous
improvement of
quality of healthcare
provided to Scheme
members

06

Implement more
refined stakeholder
relations management
strategies and plans

07

Maintain overall focus
on best practice
governance



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Milton Streak, Principal Officer