



Welcome to the Discovery Health Medical Scheme Annual General Meeting
22 June 2017



Discovery Health Medical Scheme: Annual General Meeting
Dr Nozipho Sangweni, Principal Officer
22 June 2017

01 | We exist for our members

02 | Sustainability and financial security for members' peace of mind

03 | Extensive member support capabilities

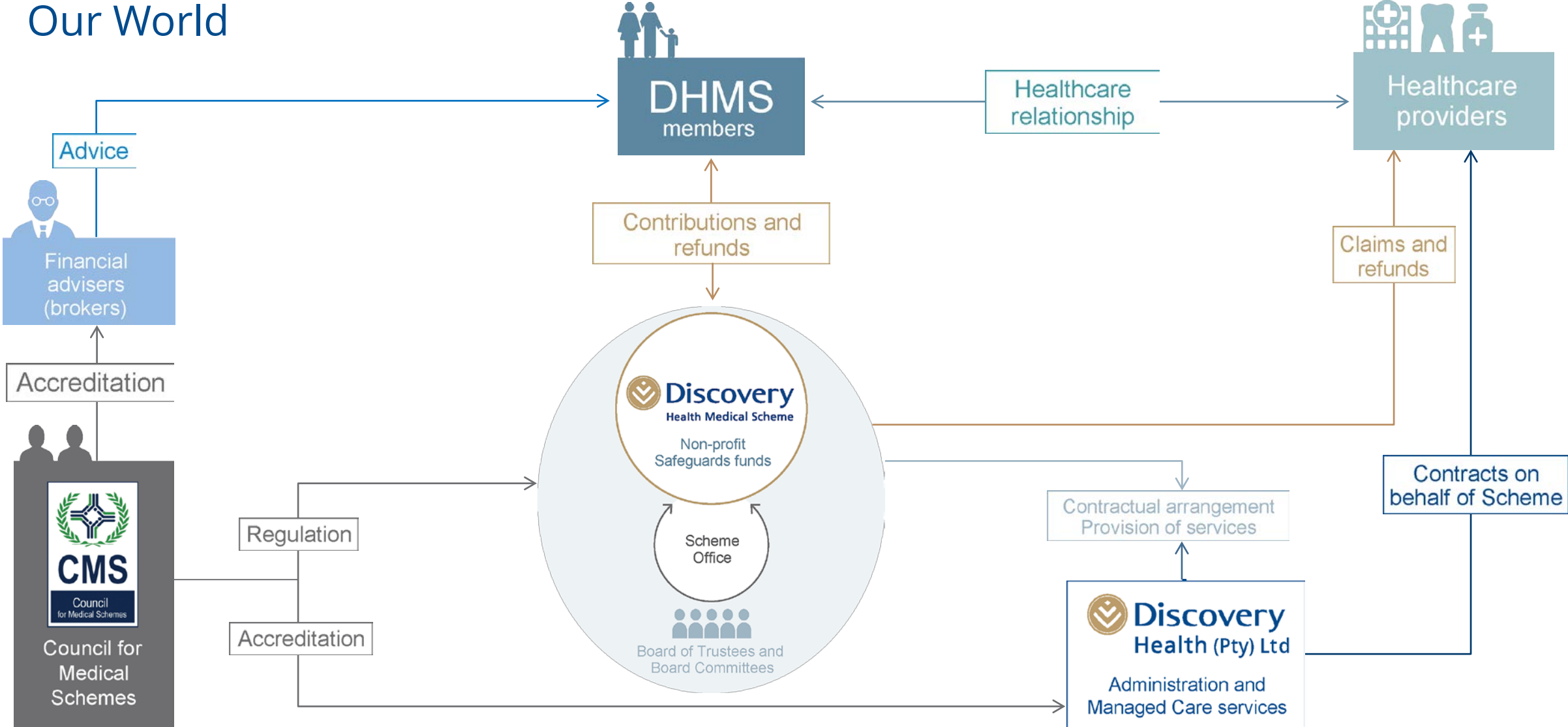
Our strategic themes to deliver on our purpose



Discovery Health Medical Scheme is a non-profit organisation that exists for its members



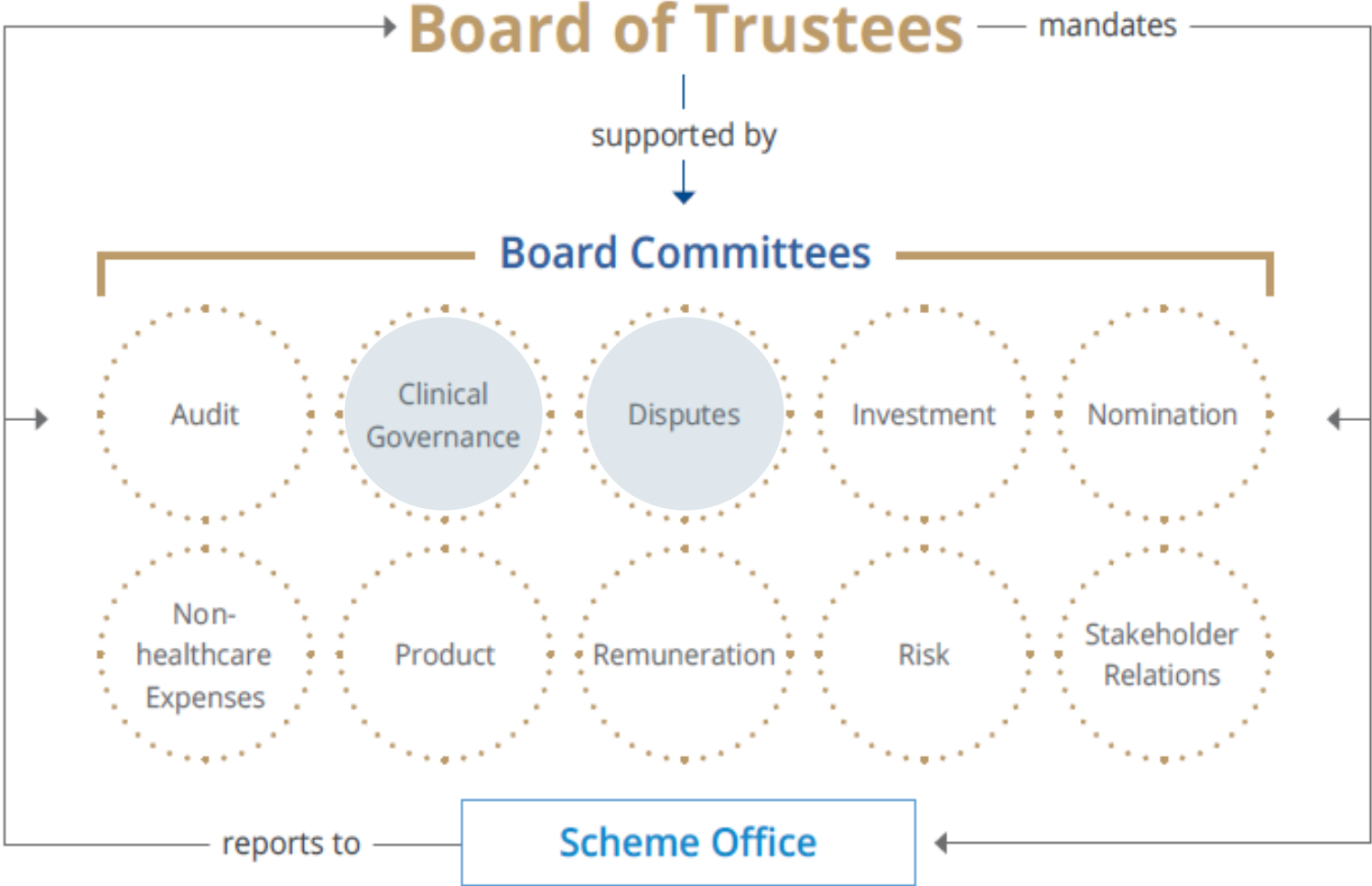
Our World



Strong, independent governance structures to safeguard members' interests



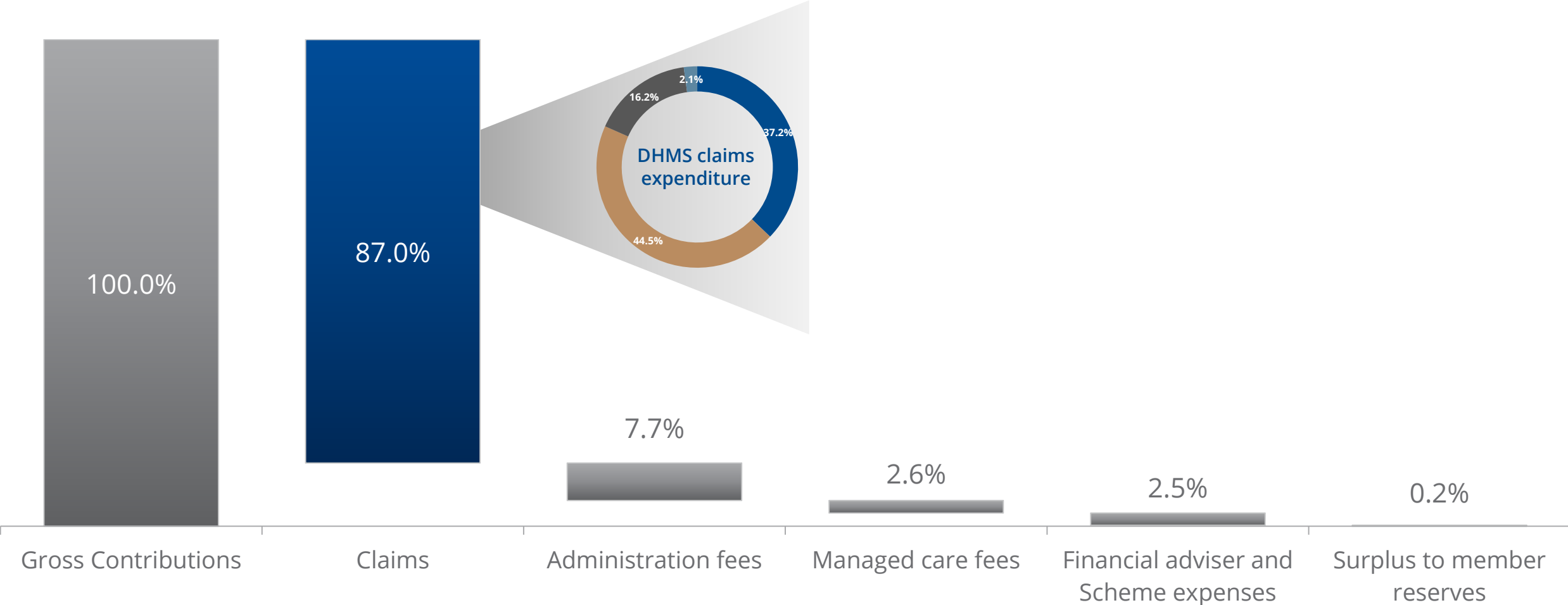
At least 50% of Trustees elected by members; highly skilled independent Trustees and Committee members



87.0% of contributions are for the funding of members' healthcare claims



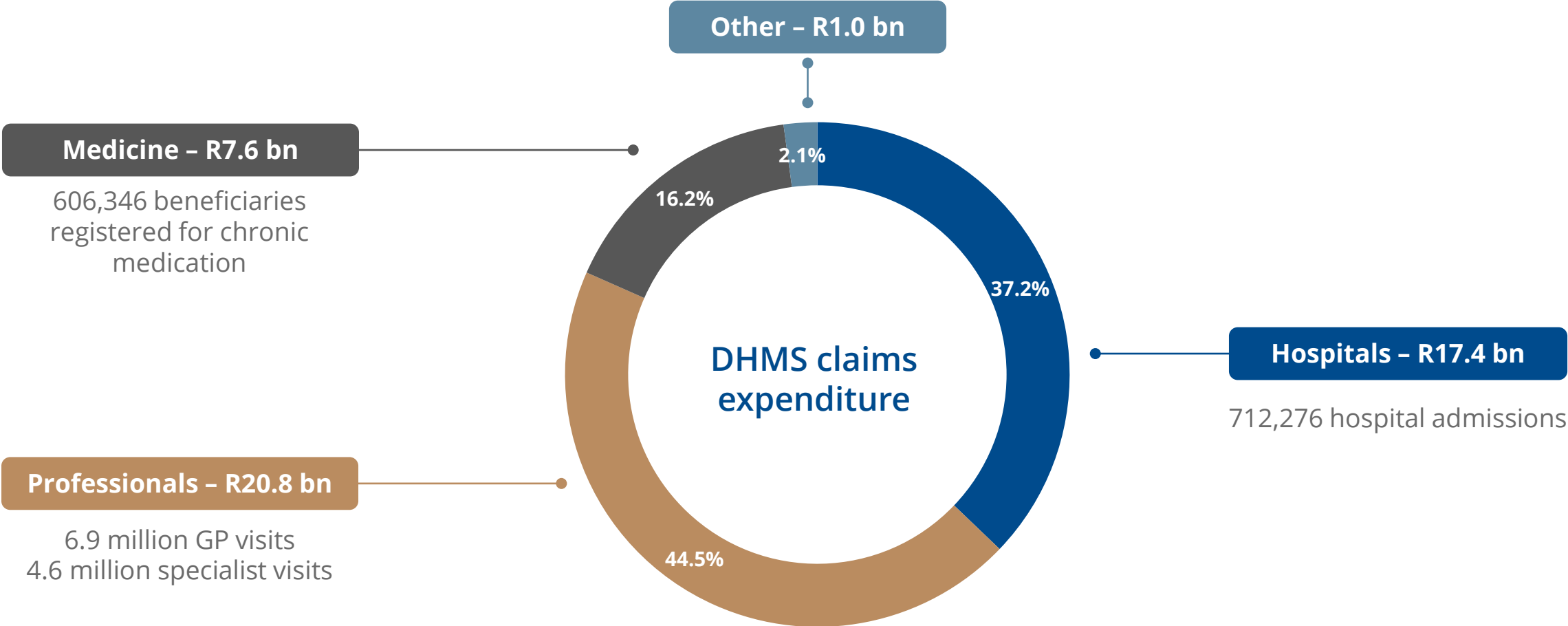
DHMS expense breakdown (2016)



Source: DHMS data

R46.7 billion paid in total claims in 2016

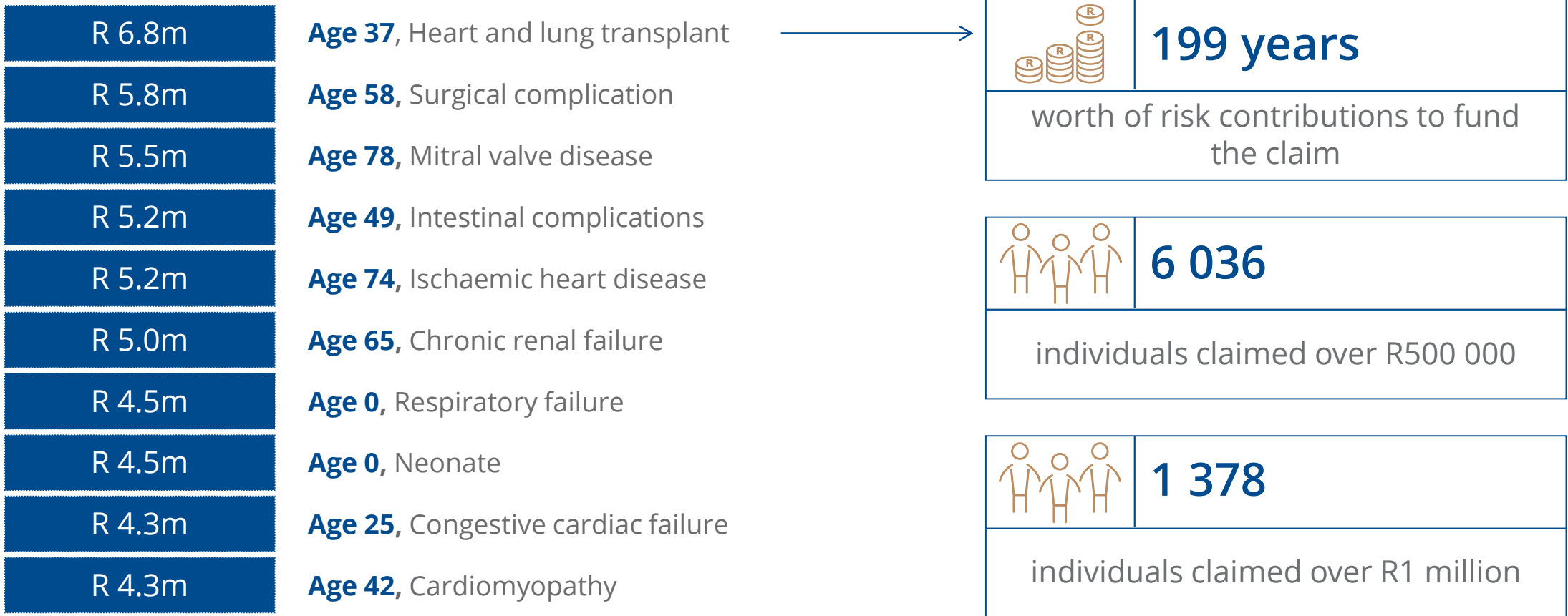
DHMS claims breakdown (Risk + MSA)



Notes: Total claims include risk and MSA claims
Categories add up to R46.8 billion due to rounding
Source: DHMS data

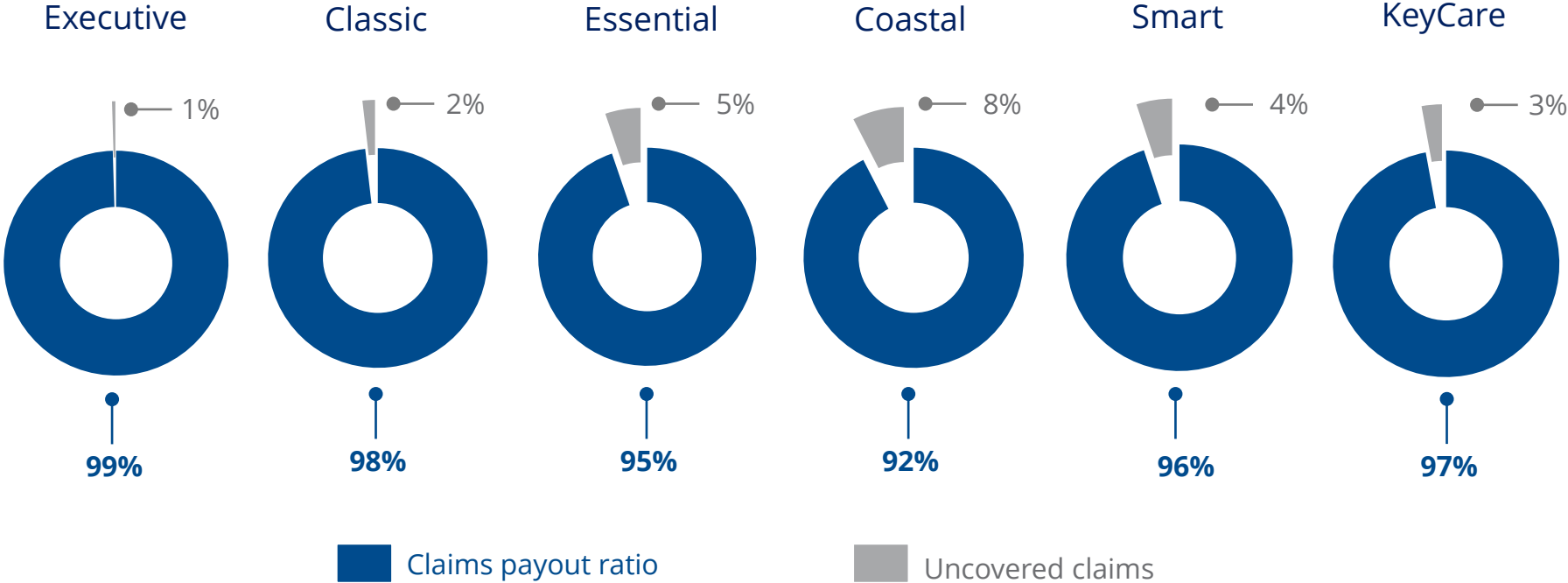
Caring for members with complex and emergency healthcare needs

10 highest individual member claims paid in 2016 = R 51.1 million



And providing comprehensive levels of in-hospital cover

97% Overall In-hospital claims payout ratio (including medical specialists) - 2016



Notes: High in-hospital claims payout ratios reflect extensive use of provider networks by members
Source: DHMS data

01 | We exist for our members

02 | **Sustainability and financial security for members' peace of mind**

03 | Extensive member support capabilities

Key metrics for a sustainable medical scheme

Growth and sustainability



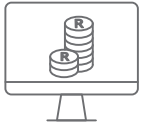
Membership size

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



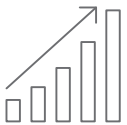
Membership growth

Continuous growth of young and healthy lives **improves risk pooling** and reflects attractiveness and competitiveness of the Scheme through **cross-subsidisation** principles.



Plan movements

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



Contribution increases

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



Absolute reserves

Demonstrates 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

Key metrics for a sustainable medical scheme

Growth and sustainability




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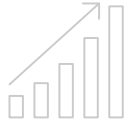


Membership growth

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Plan movements




Contribution increases

Financial strength



Absolute reserves

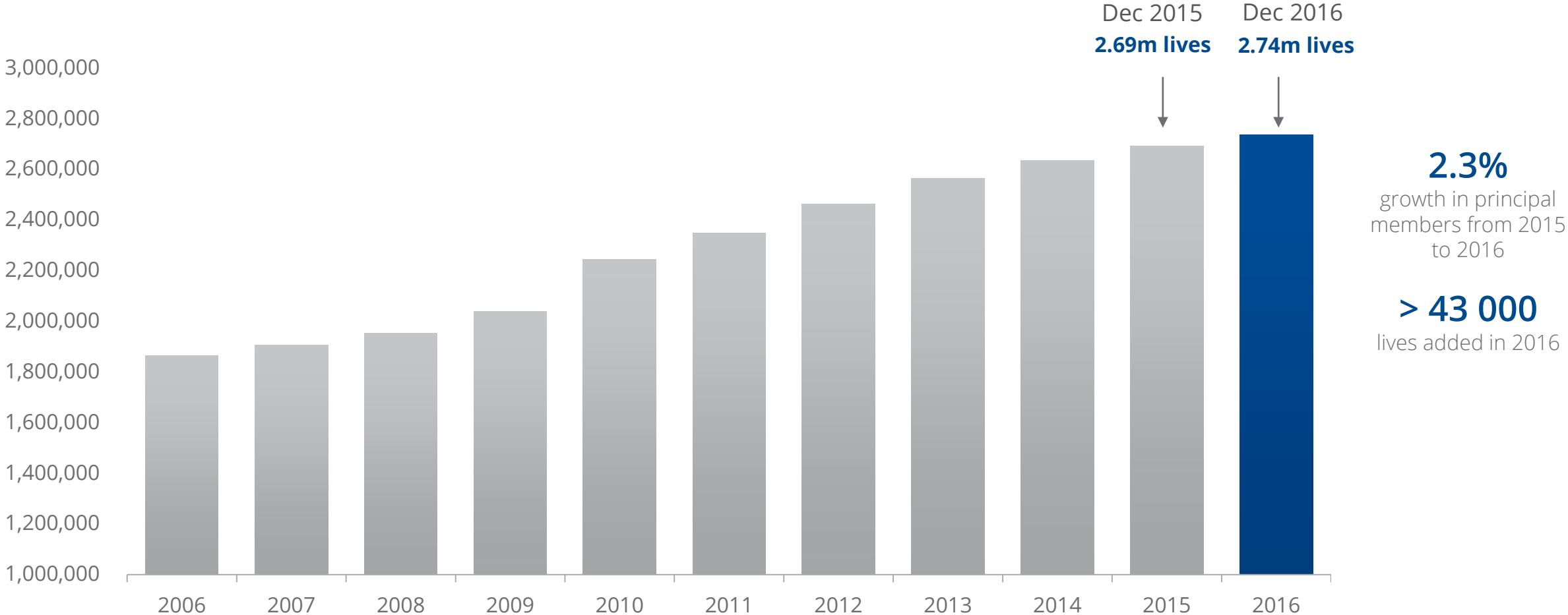


Pricing sufficiency

DHMS continues to achieve strong membership growth



DHMS lives covered



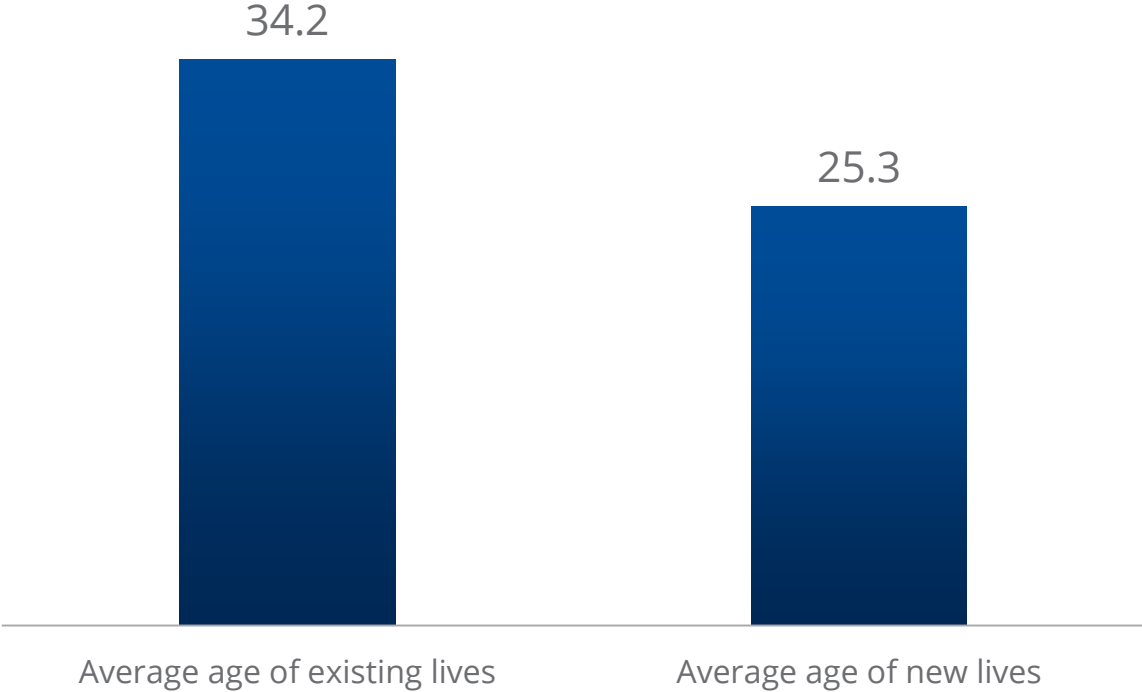
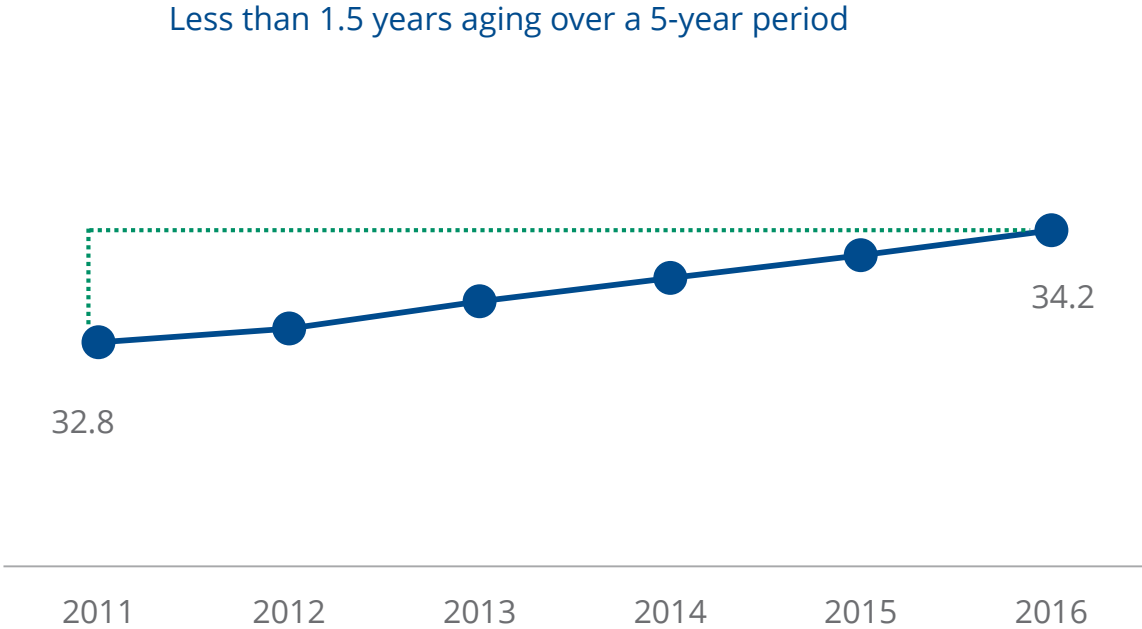
Source: DHMS data

Continued ability to attract younger members impacts the Scheme's risk profile positively



DHMS ages less than a year annually

New lives present a healthy demographic profile



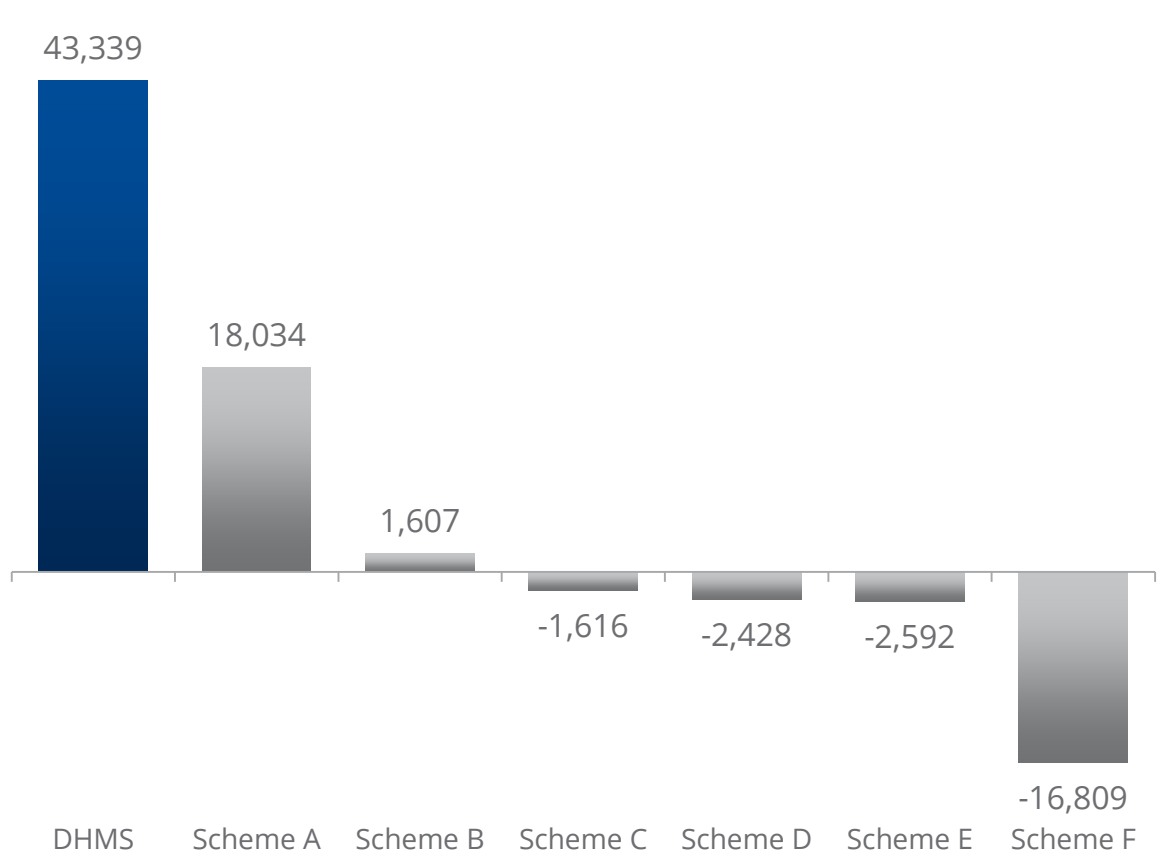
Average claims of a medical scheme increase by 3% for every year that the average age of a medical scheme increases

Source: DHMS data

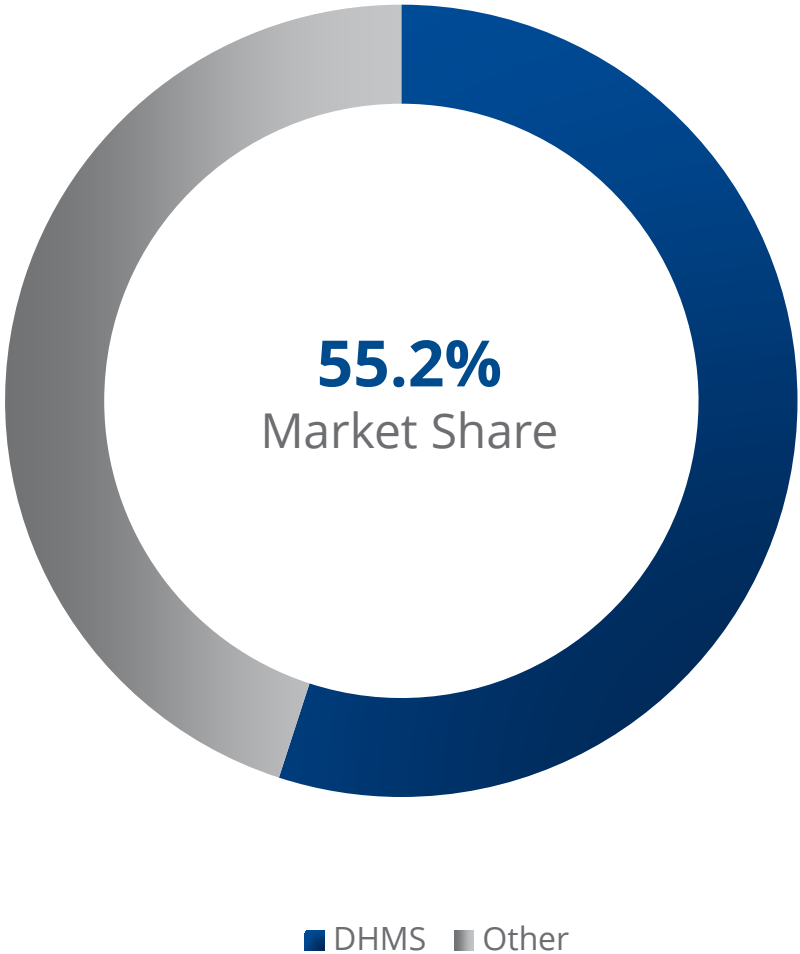
Strong net growth in lives; well positioned to look after our members into the future



Net growth in lives (2016)




Open schemes market share (2016 Q3)




1. Not all scheme results were available
2. Comparison amongst the top seven medical schemes
Source: Published results 2016; CMS Annual Report 2015-16

Key metrics for a sustainable medical scheme

Growth and sustainability



Membership size



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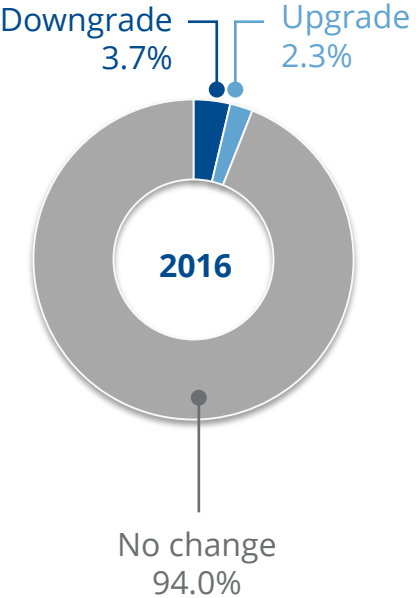
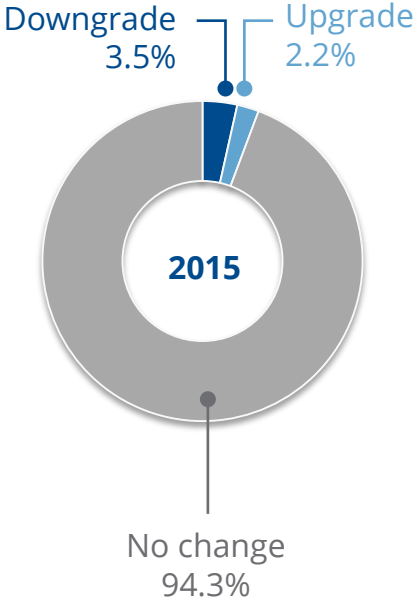
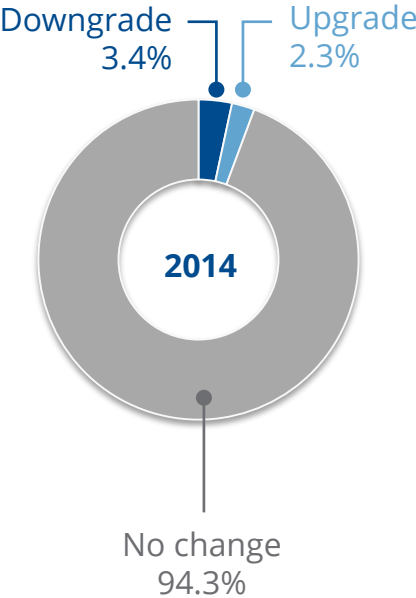
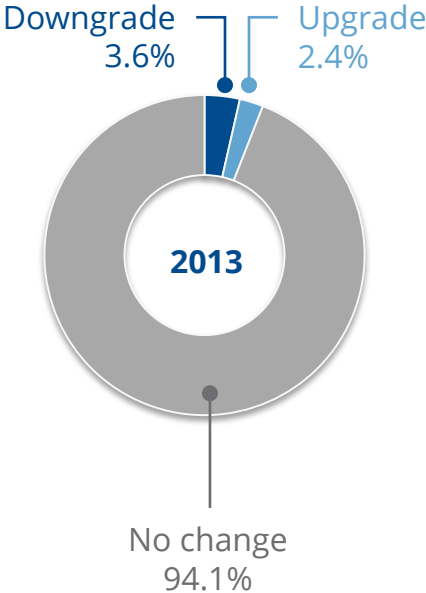
Absolute reserves



Pricing sufficiency

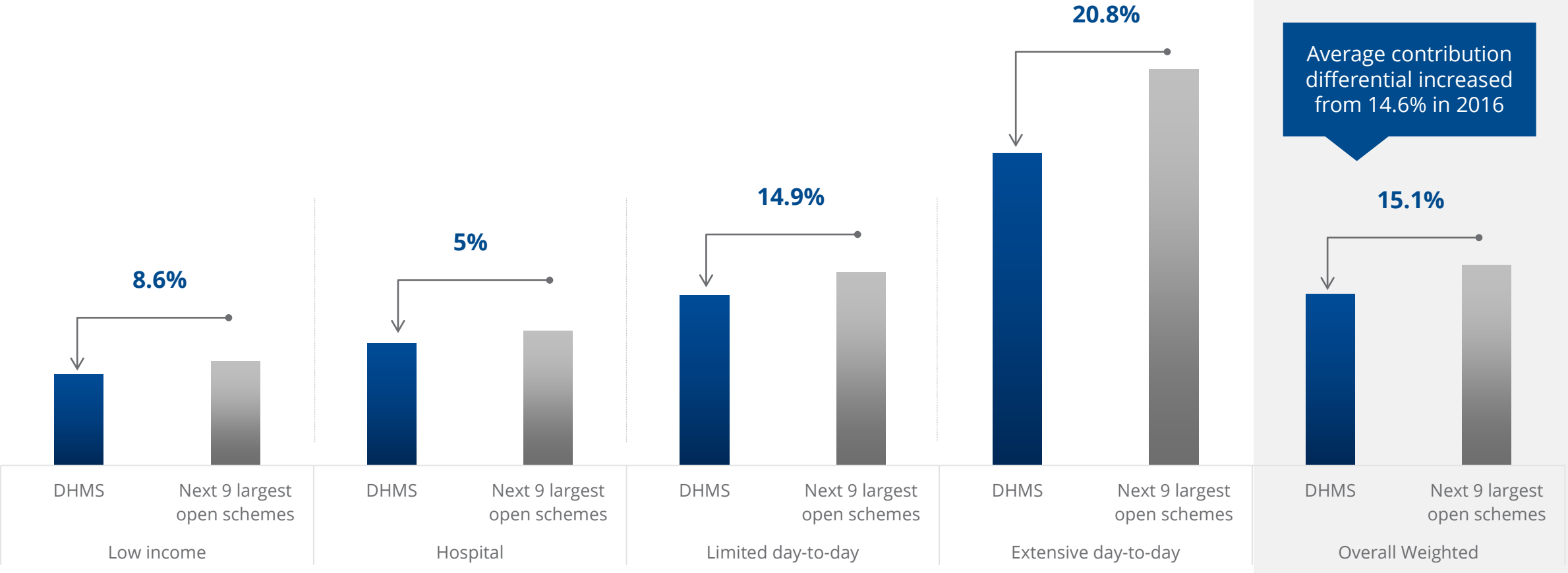
Consistent pattern of stable plan distribution

Stability in plan movements over time



15.1% average contribution differential in 2017

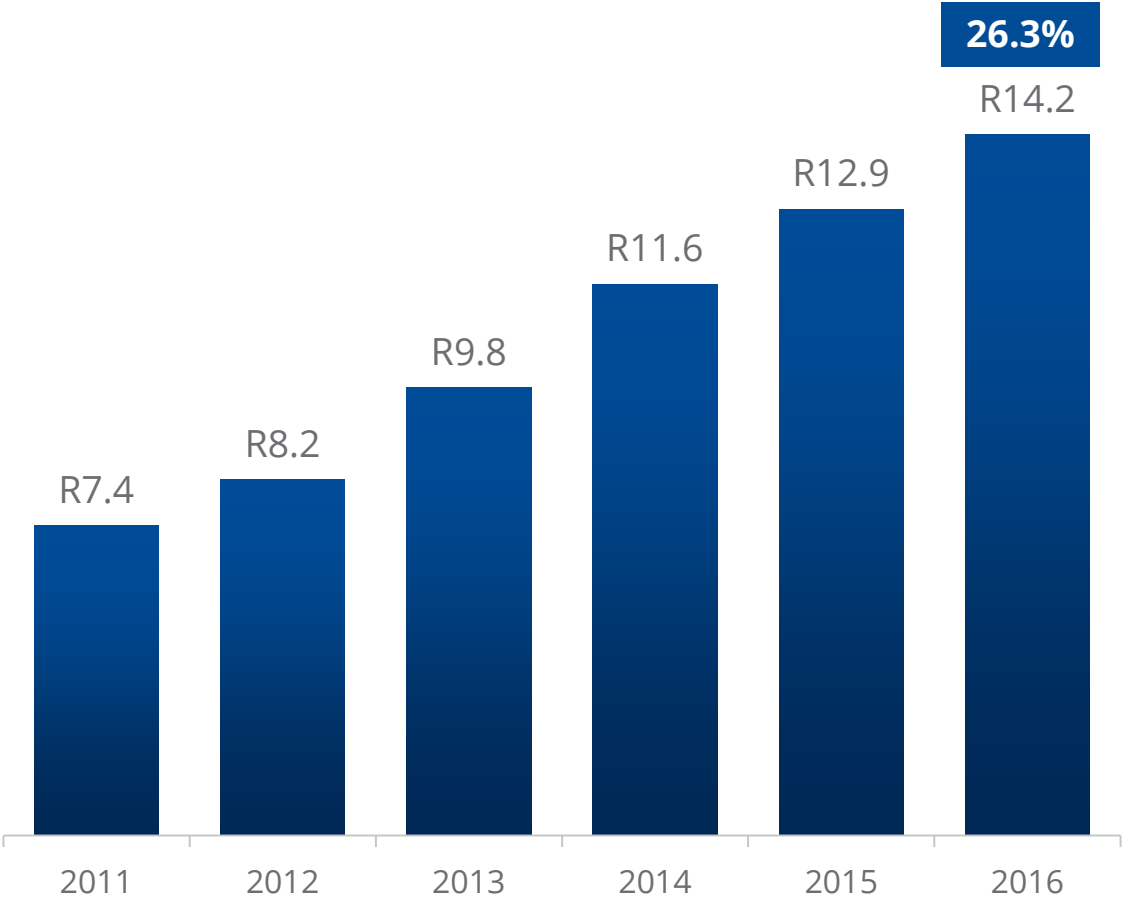
Average contribution differential for a family of three (P+A+C) in 2017



Source: Published contributions for 2017
P+A+C = Principal member + Adult dependant + Child dependant

DHMS has significant reserves to fund members' claims

Reserves¹ (Rand billion) and solvency level



DHMS reserves higher than combined reserves for next 17 largest open schemes

Notes: ¹Reserves refer to accumulated funds (per Regulation 29); On average, reserves of R5,200 per beneficiary
Source: Published results 2016

2016 DHMS financial highlights: members' funds are secure



Measure	2015 (R million)	2016 (R million)	% change pampm ¹
Gross Contribution Income	49,759.8	54,056.2	6.1%
Less savings contribution income	(9,693.0)	(10,429.8)	5.1%
Net contribution income	40,066.7	43,626.4	6.3%
Relevant healthcare expenditure ²	(34,503.6)	(38,035.9)	7.6%
Gross healthcare result (premiums – claims)	5,563.1	5,590.5	
Broker service fees	(982.9)	(1,101.6)	9.4%
Expenses for administration	(3,874.9)	(4,150.2)	4.6%
Other operating expenses	(198.4)	(236.2)	16.2%
Net healthcare result (premiums – claims – expenses)	507.0	102.5	
Net investment and other income ³	769.1	1,203.0	
Net surplus for the year (including investment income)	1,276.1	1,305.5	

¹Per average member per month

²Includes accredited managed healthcare fees

³Other income (investment income, net gains on financial assets at fair value through profit or loss, and sundry income) less other expenses (expenses for asset management services rendered and interest paid)

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Growth and sustainability



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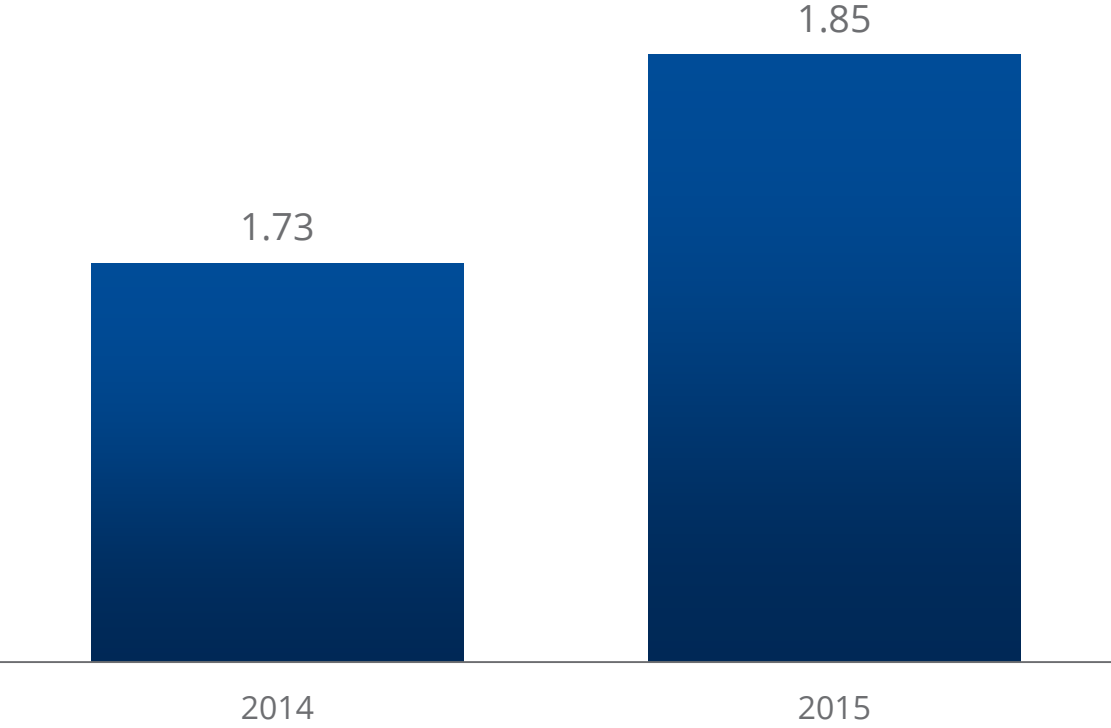
Surplus year-on-year reflects **contribution levels** that are in line with expected membership and claims.

Measuring the value generated for our members

DHMS and its members continue to receive value from Discovery Health



Value generated for DHMS members



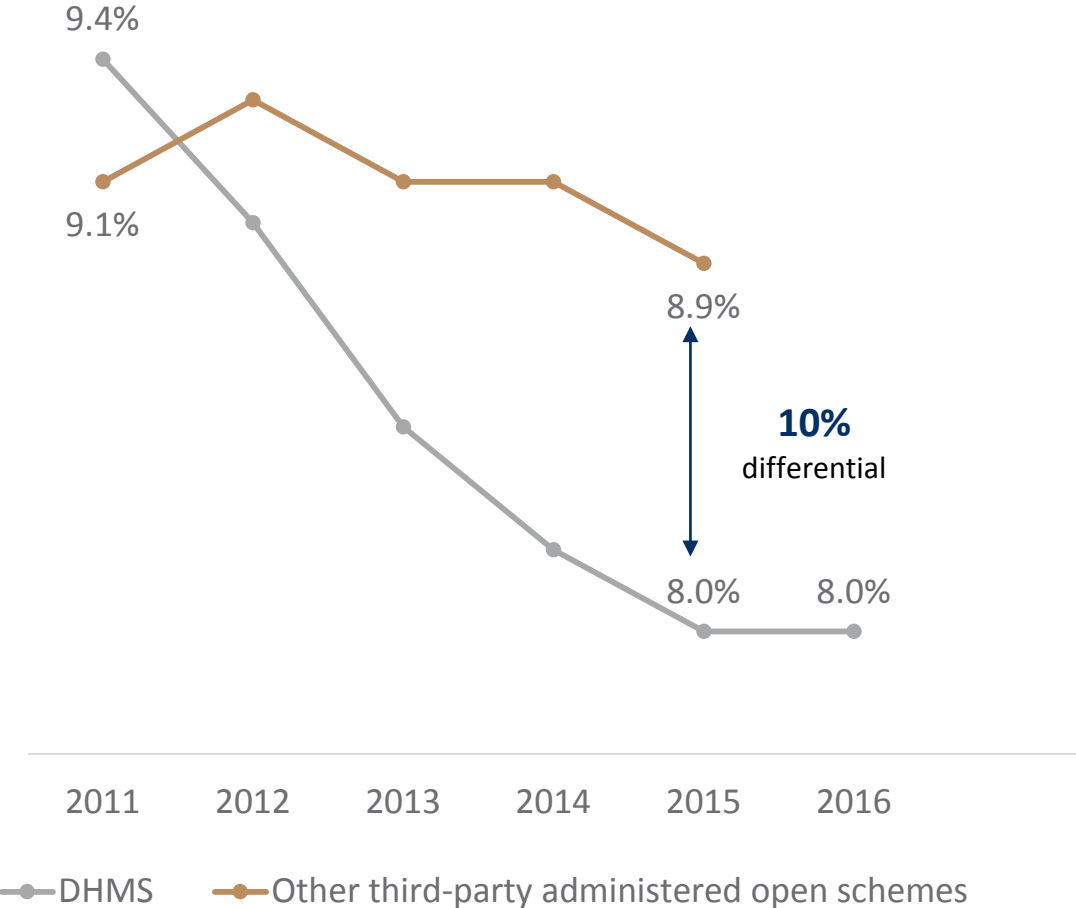
For every R1 spent on managed care and administration fees, beneficiaries of the Scheme derived **R1.85 in value**



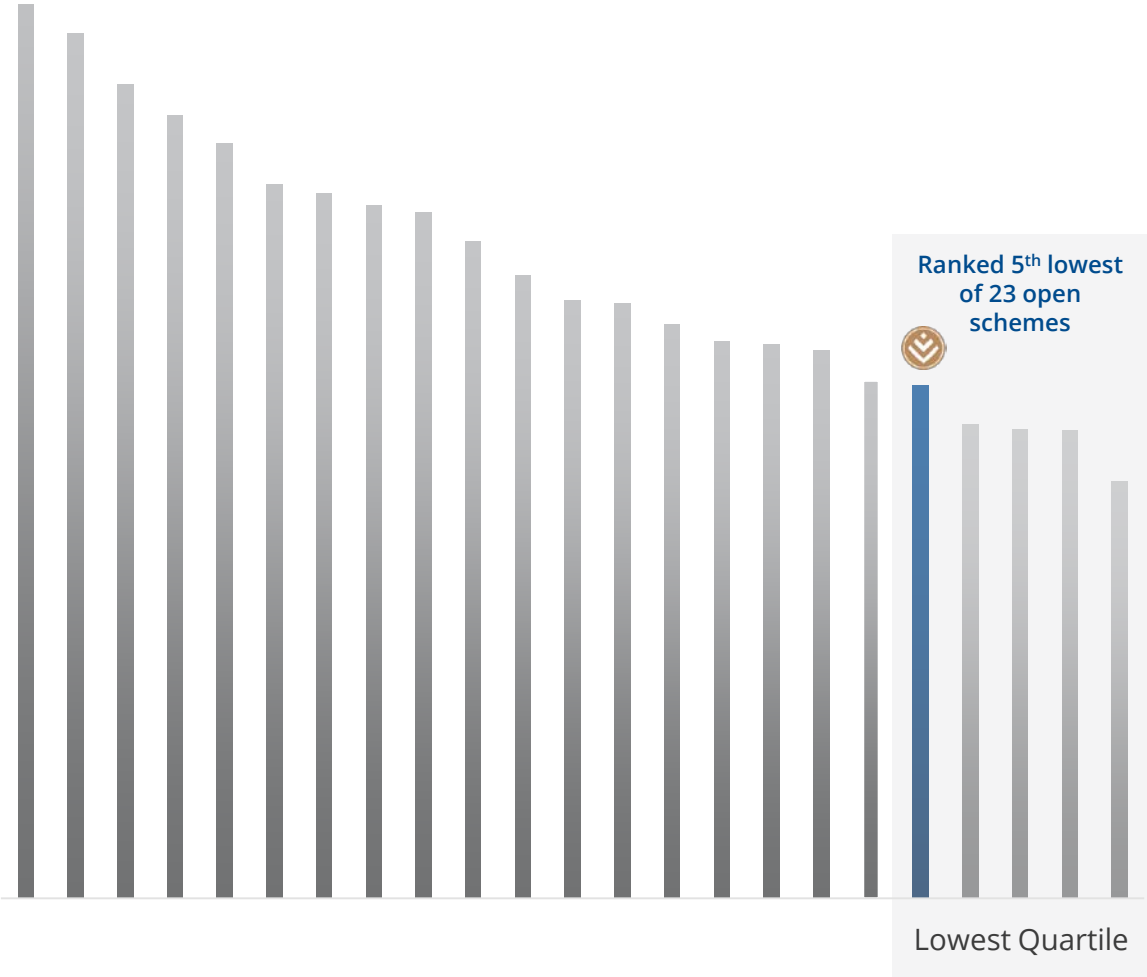
Reviewed by Deloitte

Continued decrease in administration expenditure and fees

Administration expenditure as % of Gross Contribution Income (2011 – 2016)



Administration expenditure as % of Gross Contribution Income (2015)



Notes: The latest CMS report is for 2015
Source: CMS Annual Report 2015-16

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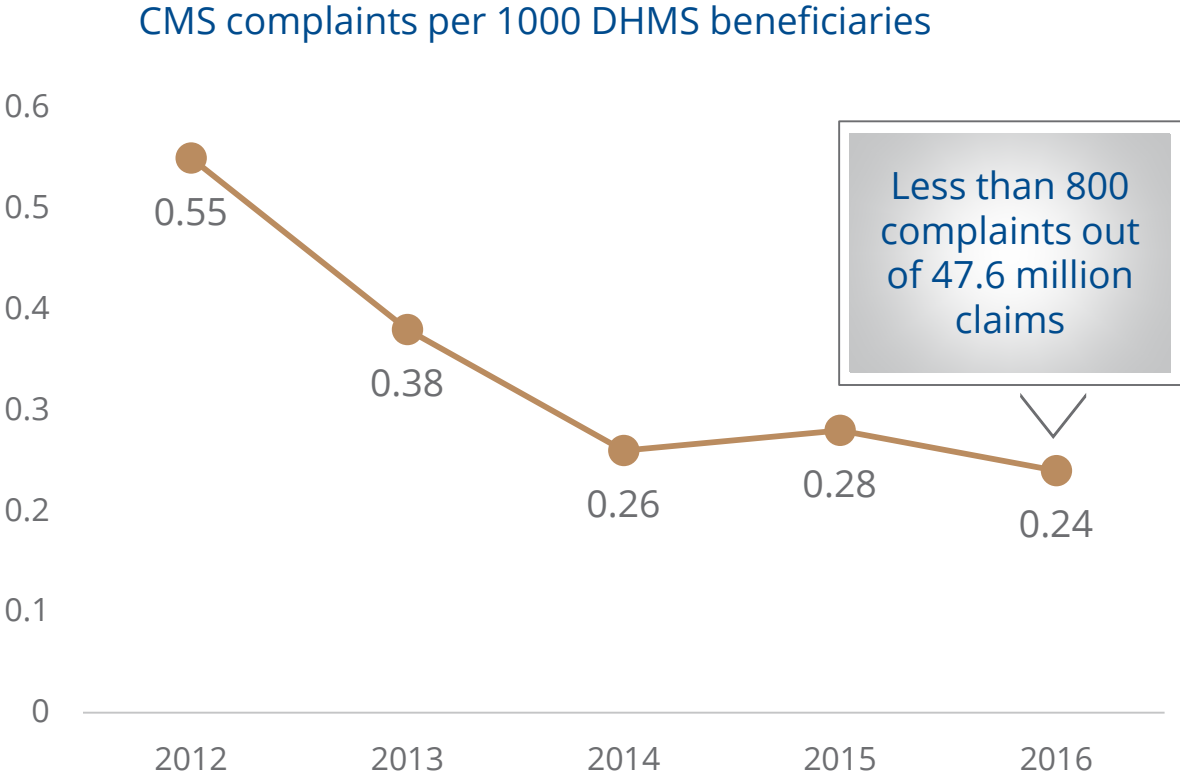
02 | Sustainability and financial security for members' peace of mind

03 | **Extensive member support capabilities**

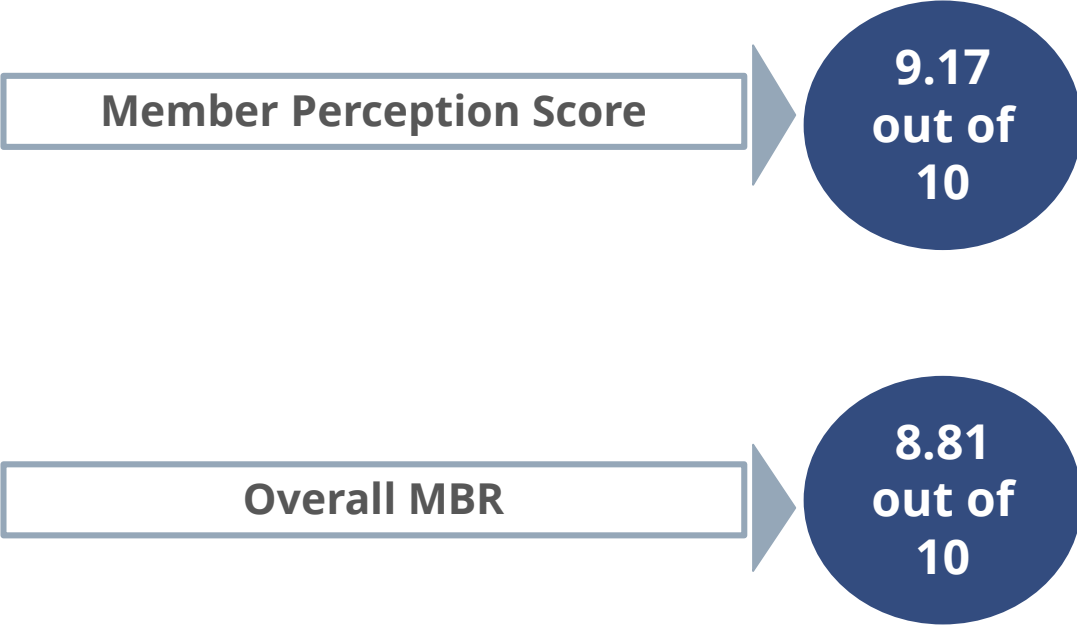
Maintaining high levels of member satisfaction



Lower levels of CMS complaints

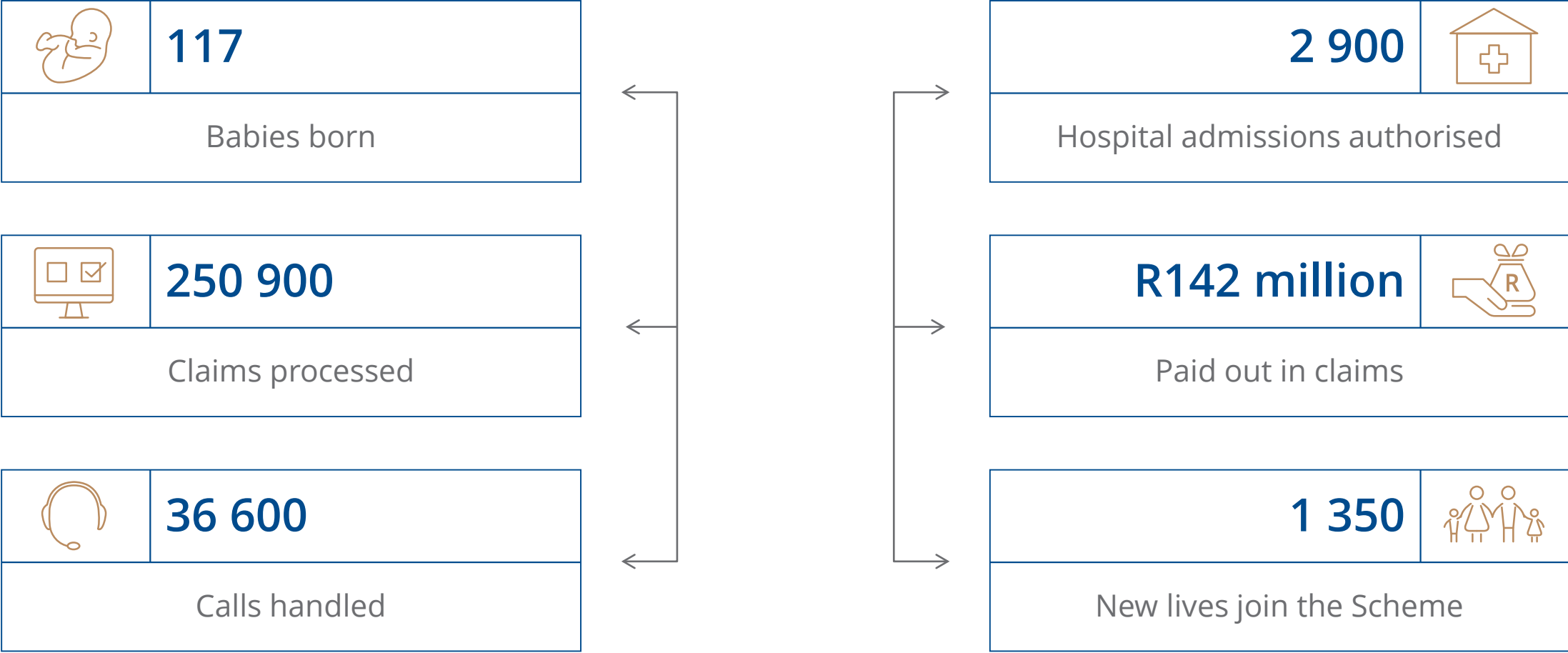


Consistently high member satisfaction



Working hard to provide support to our members

A day in the life of the Scheme



Notes: Based on 258 working days in a year
Source: DHMS data



Discovery Health Medical Scheme: Annual General Meeting

Dr Nozipho Sangweni, Principal Officer

22 June 2017



Discovery Health Strategy for the Discovery Health Medical Scheme
2017 Annual General Meeting
Dr Jonathan Broomberg – CEO Discovery Health

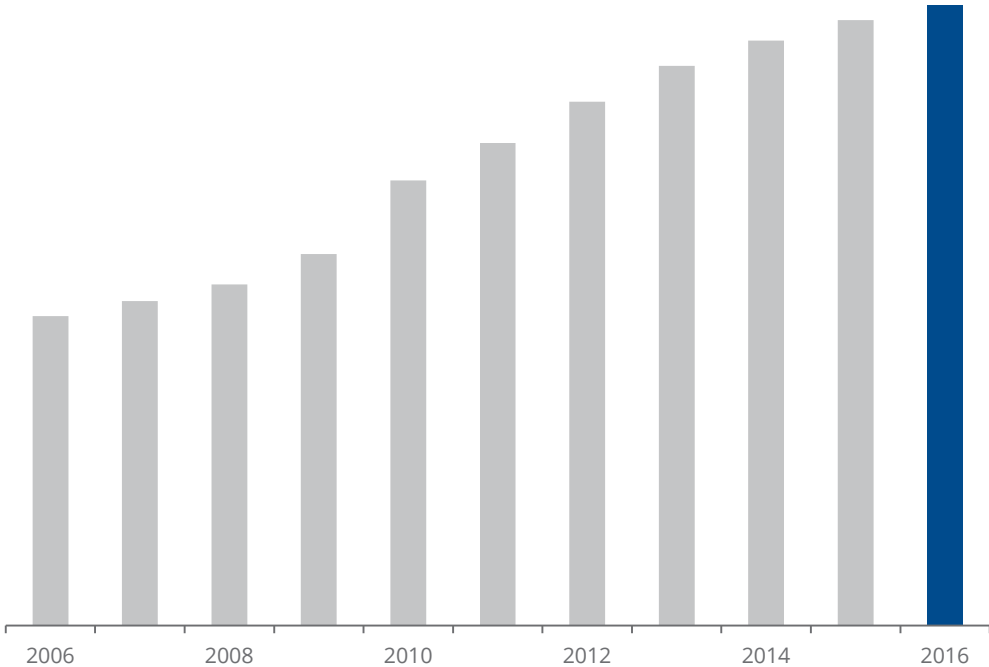
Discovery Health Medical Scheme showed outstanding performance across all metrics in 2016



Growth

+2.3% membership growth

>43 000 new lives



Strength and stability

26.3% Solvency

R14.2bn Reserves

AA+ GCR credit rating

R103m Operating surplus

R1.3bn Net Surplus

Discovery Health's strategy for DHMS



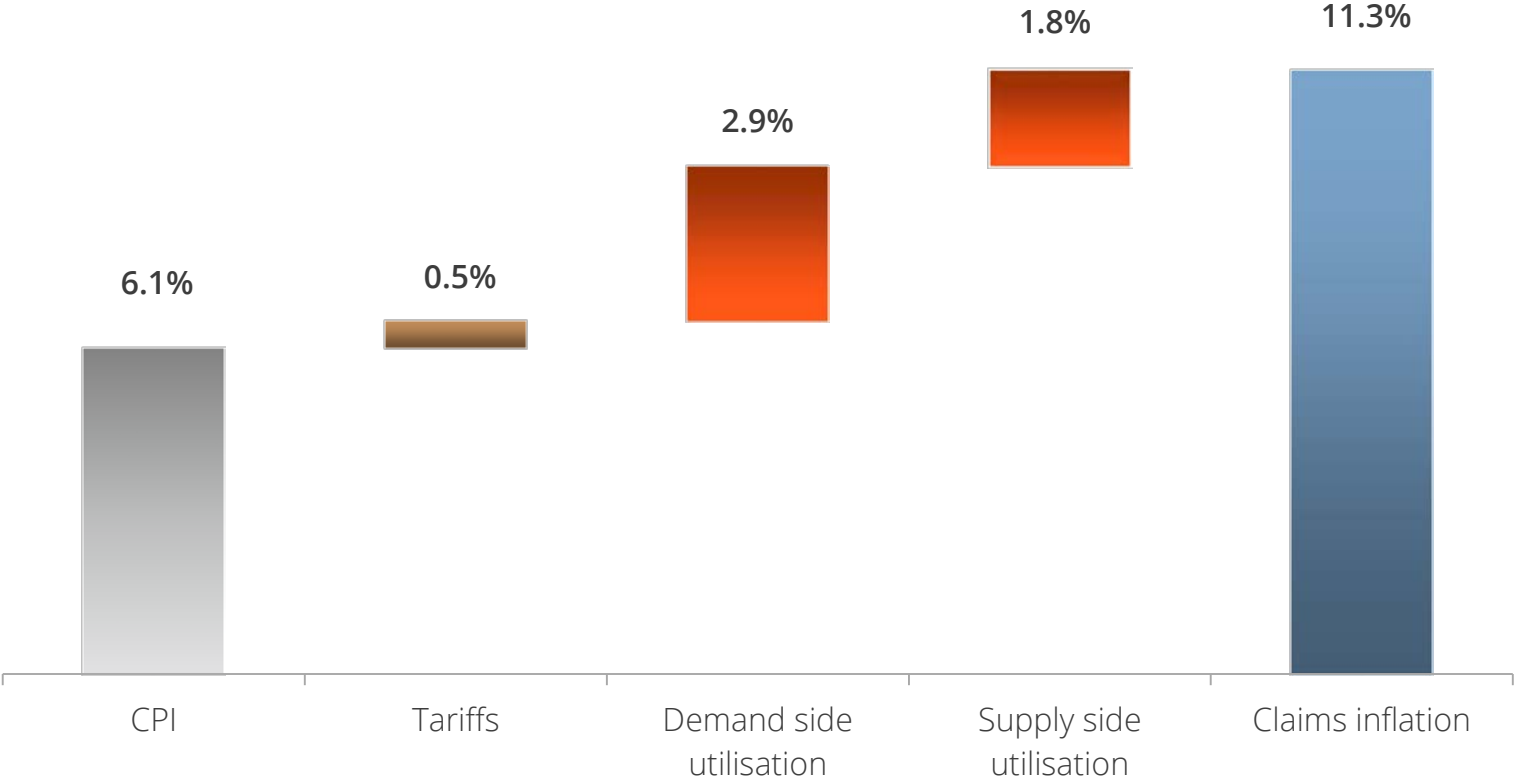
01 | Lowering healthcare costs

02 | Improving quality of care for scheme members

03 | Using digital technology to transform healthcare and member servicing

04 | Making members healthier

Drivers of claims inflation (2008 – 2016):



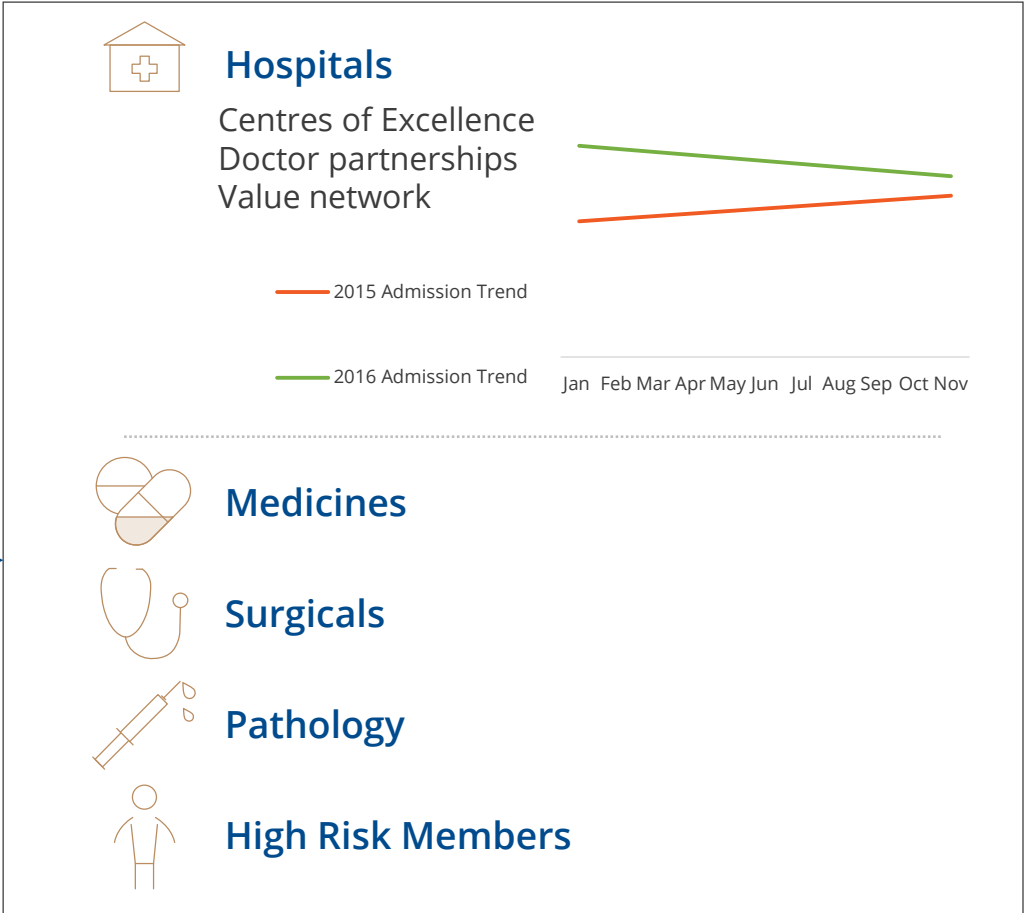
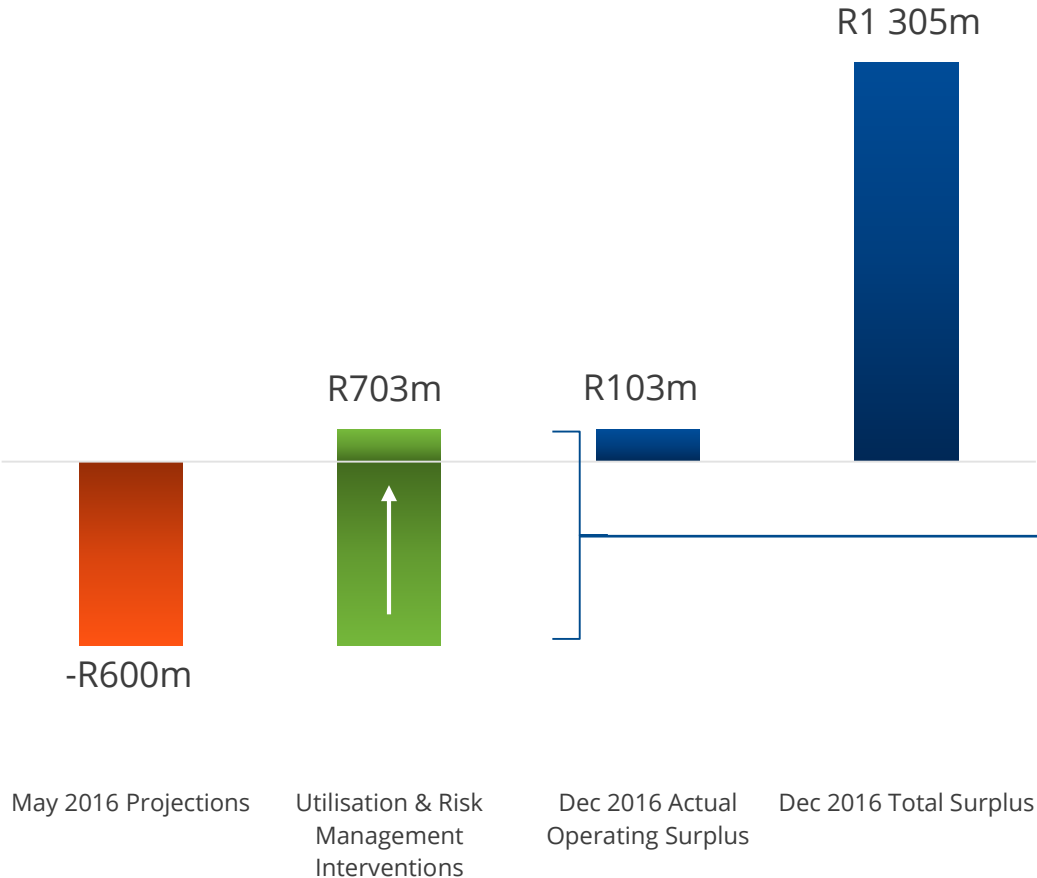
Healthcare inflation is:

- 1 Not just about tariffs but utilisation
- 2 Not just about the sick but also the healthy
- 3 Not just about demand but supply-induced demand
- 4 Technology doesn't reduce costs, it increases them
- 5 Not about non-healthcare expenses but healthcare expenses

Dramatic turnaround in Scheme loss ratio due to effective interventions by Discovery Health



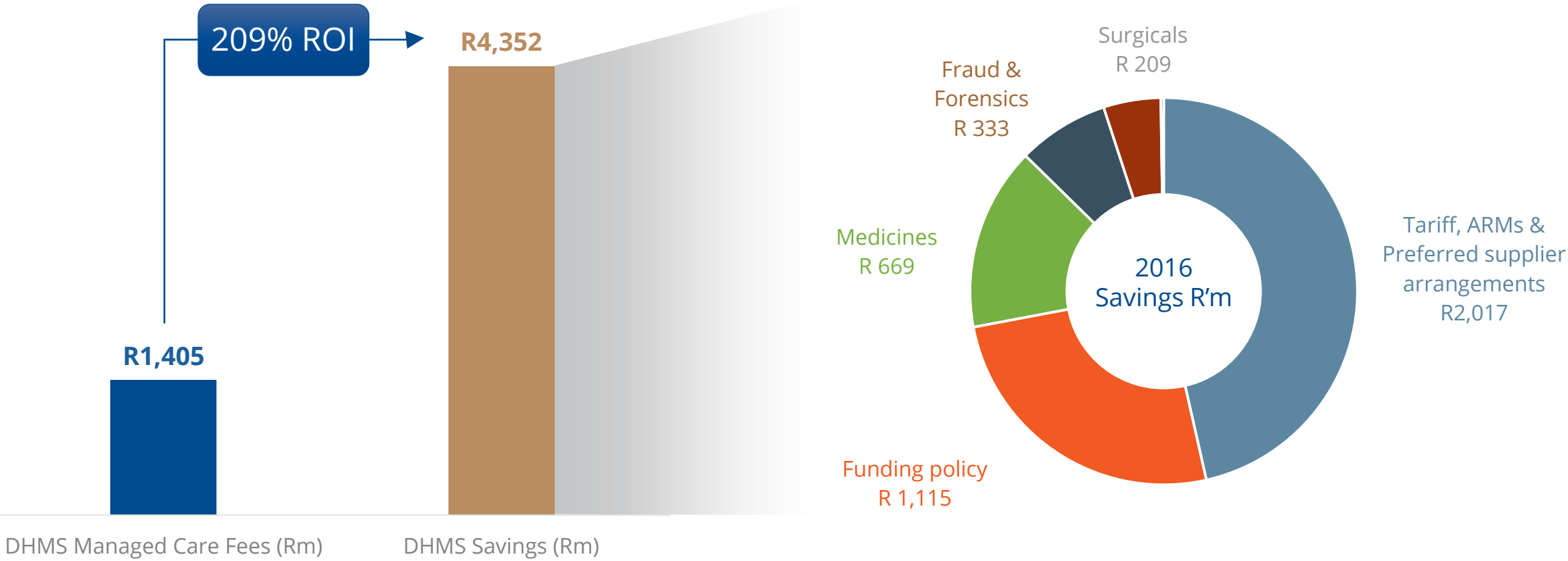
R700m turnaround in projected DHMS claims - equivalent to 2% of total premiums



Managed care interventions generated a 209% Return on Investment



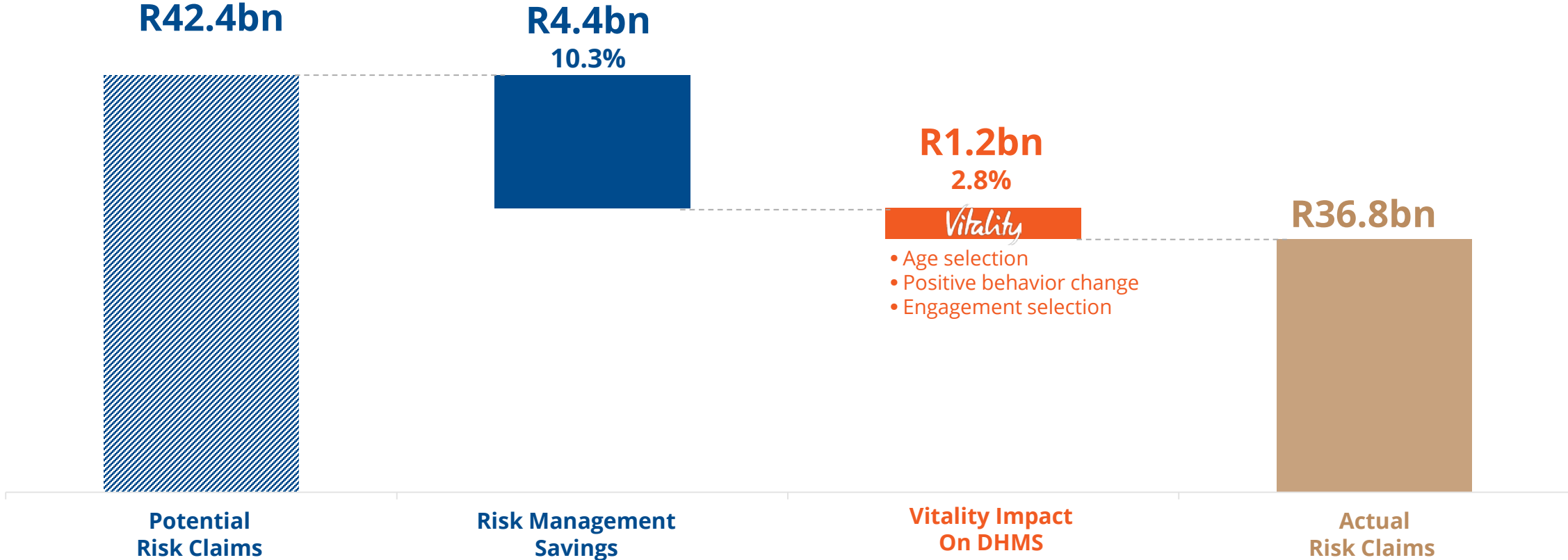
Discovery Health's managed care interventions in 2016



Discovery Health and Vitality interventions saved Discovery Health Medical Scheme R5.6bn in 2016



Impact of Discovery Health and Vitality on DHMS risk claims in 2016



Discovery Health and Vitality: 13.1% effective reduction in DHMS risk claims

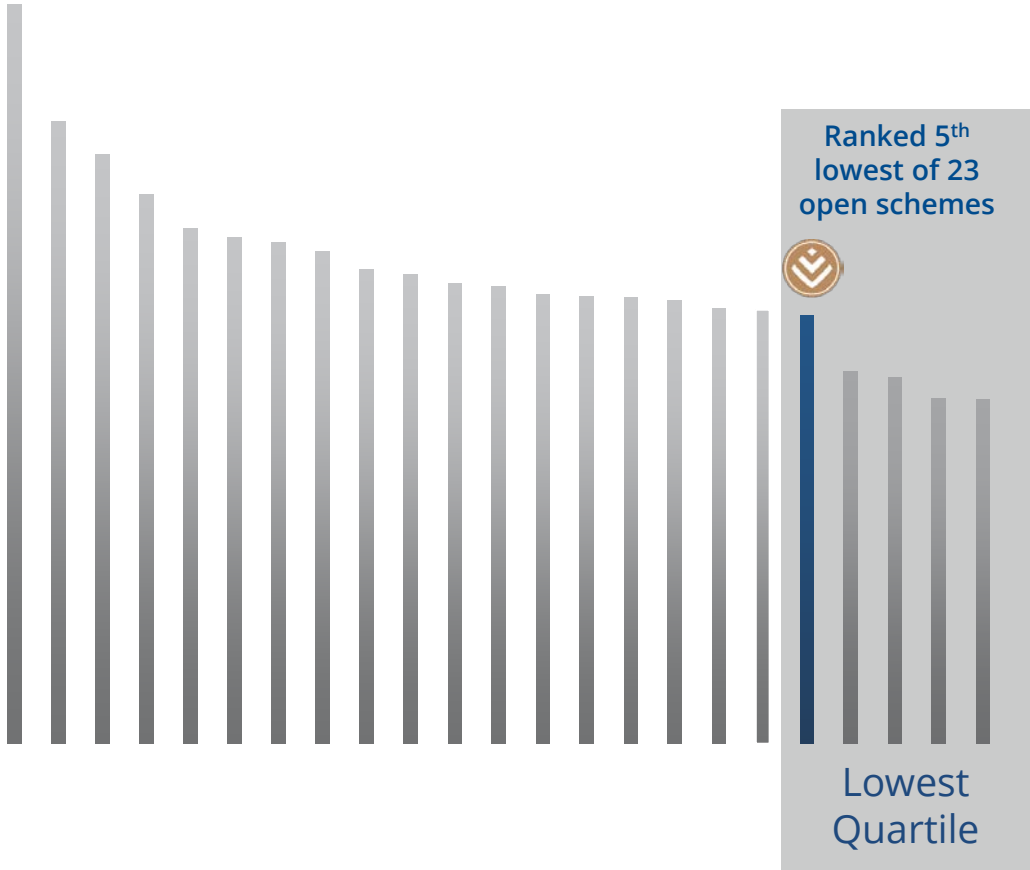
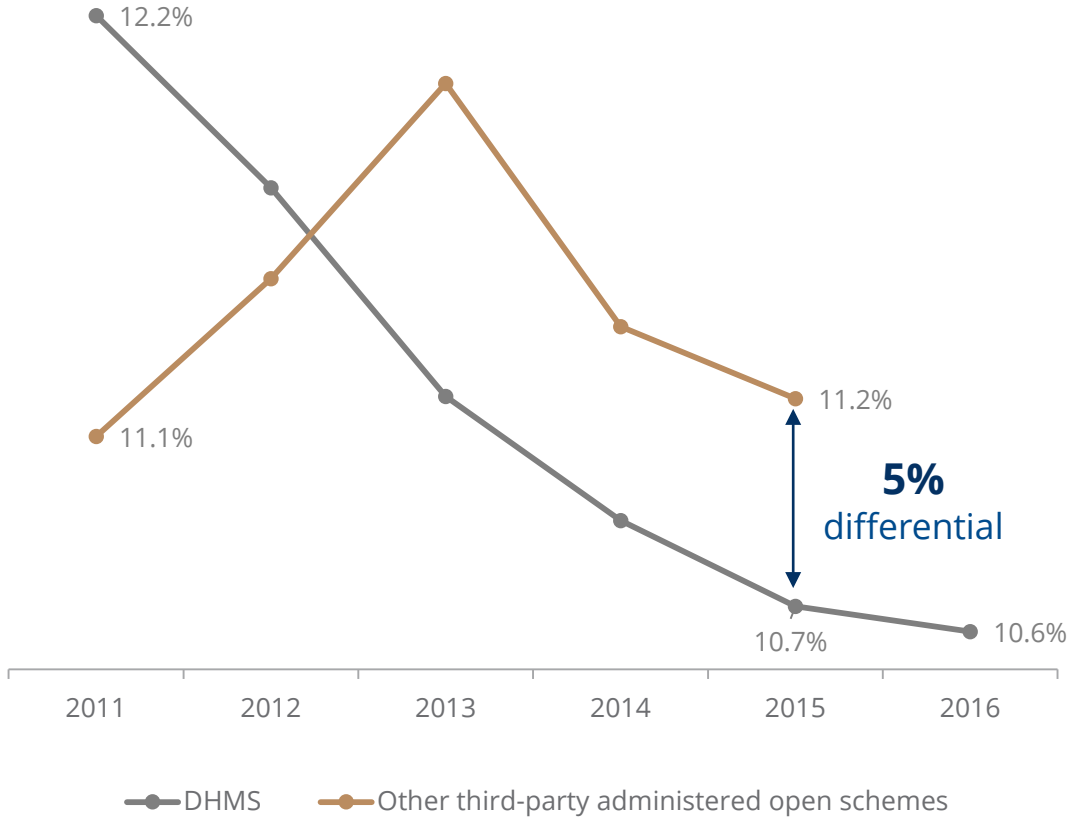
Notes: Vitality membership is voluntary for members of DHMS

Sustained decrease in administration and managed care fees over past 6 years



Administration and managed care expenditure as % of Gross Contribution Income (2011 – 2016)

Administration and managed care expenditure as % of Gross Contribution Income (2015)



Notes: The latest CMS report is for 2015
Source: CMS Annual Report 2015-16

Discovery Health's strategy for DHMS



01 | Lowering healthcare costs

02 | **Improving quality of care for scheme members**

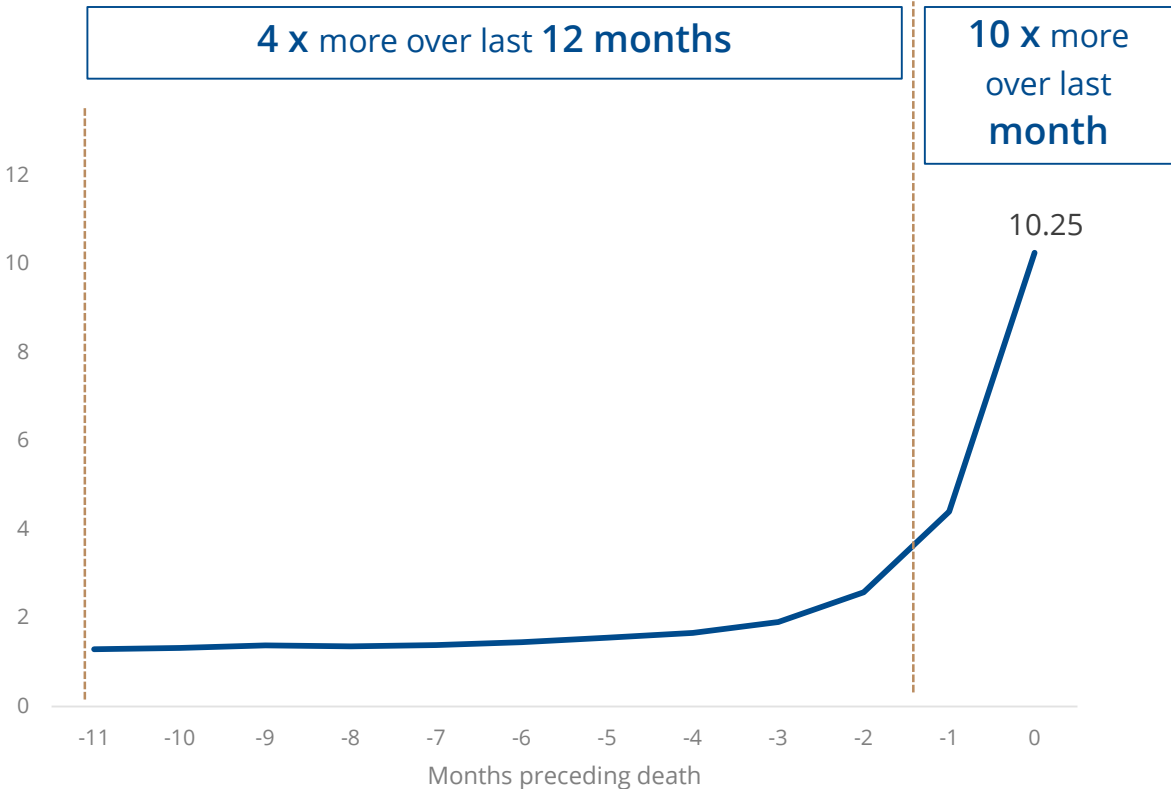
03 | Using digital technology to transform healthcare and member servicing

04 | Making members healthier

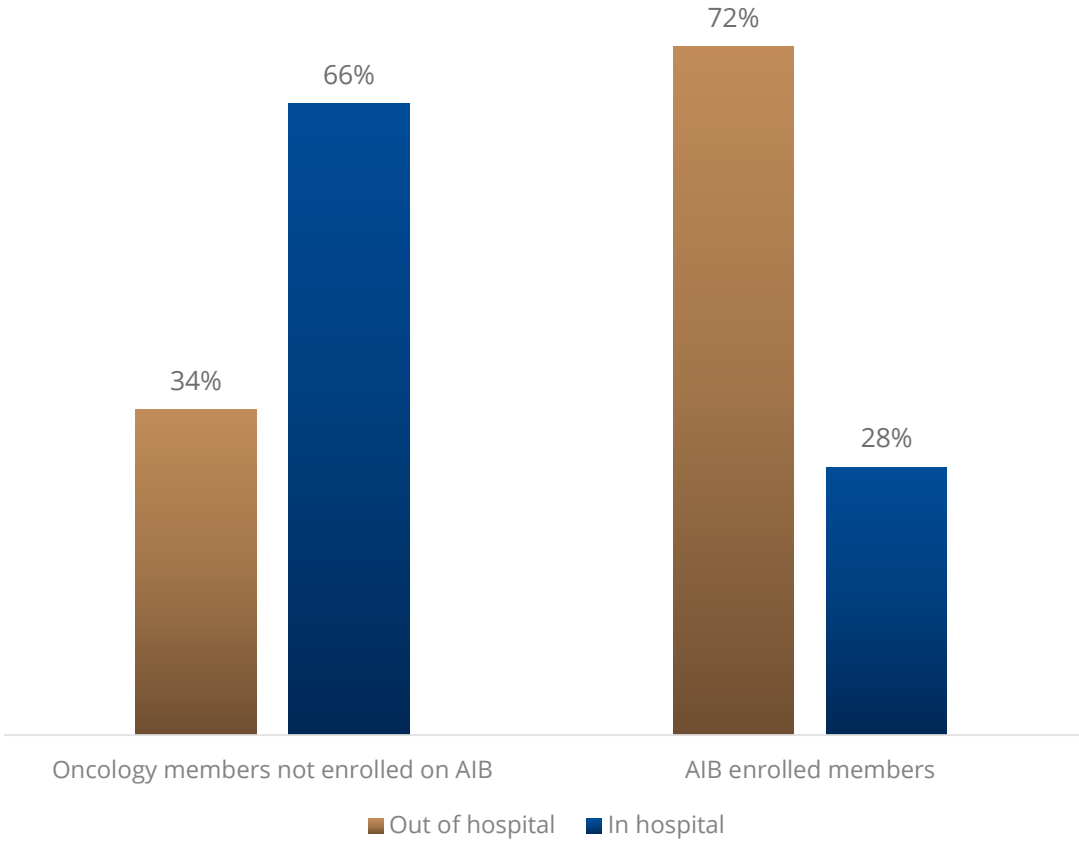
Advanced Illness Benefit: Significant impact on quality of life and costs in last 12 months of life



Increase in hospital costs near time of death



Advanced Illness benefit – shifting place of terminal care from hospitals to home



Estimated savings for 2016 R26 million

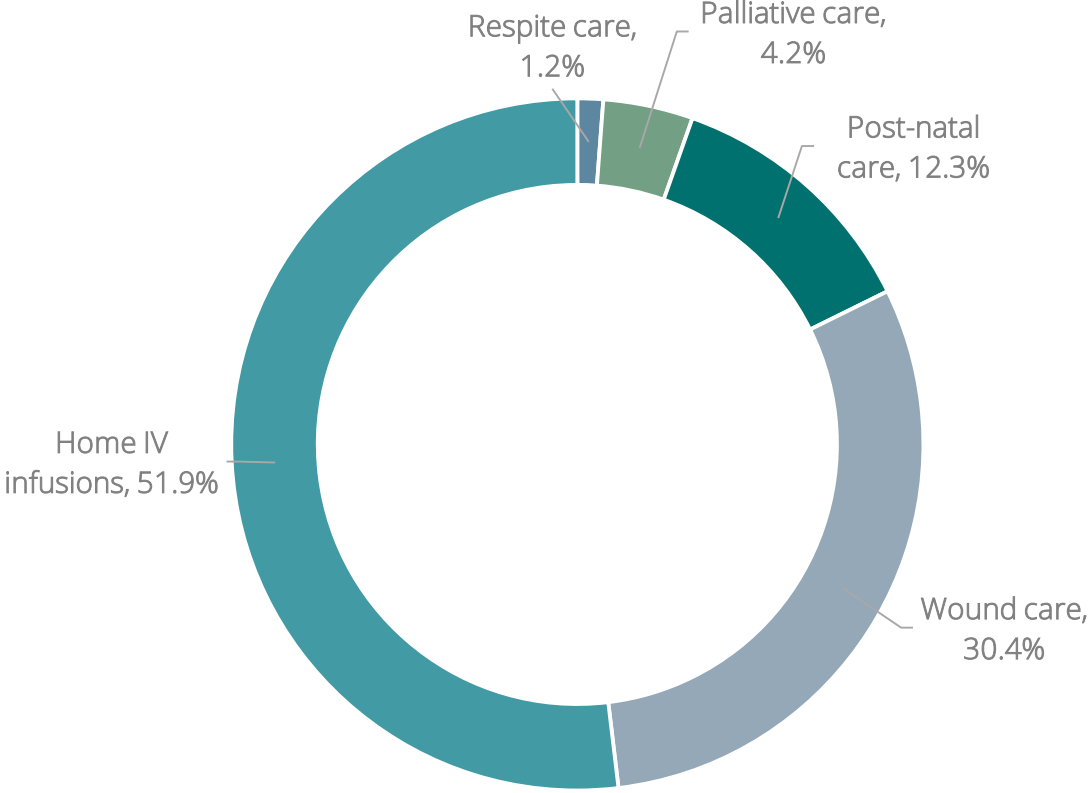
Discovery HomeCare: high quality home-based care for DHMS members



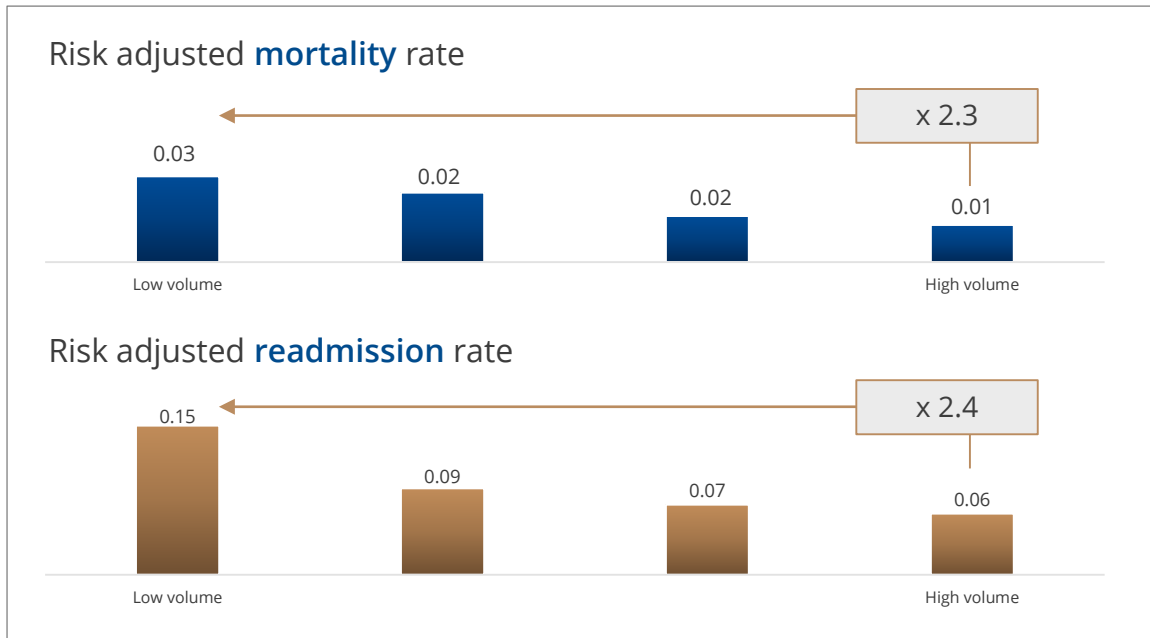
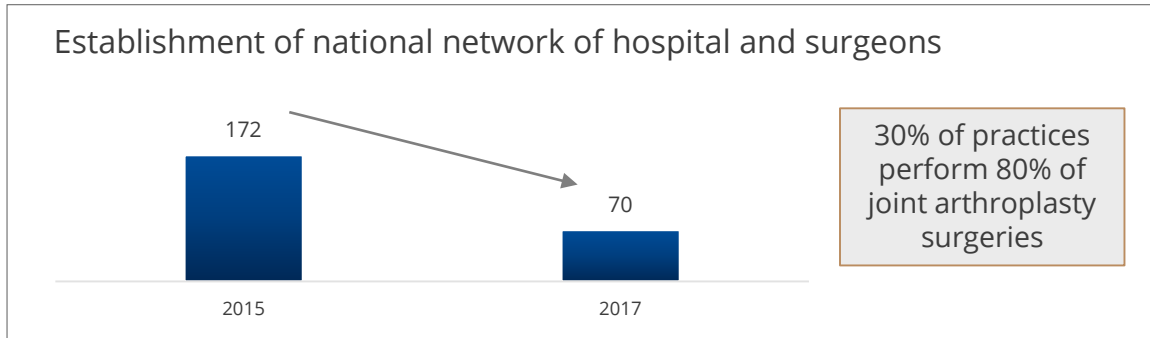
Unique home-based healthcare services



Visits per therapeutic area



Major Joint Replacement Centers of Excellence



In-hospital Psychiatry Centers of Excellence



Mental Health Facility

- Licensed facilities
- Appropriate structural requirements
- Trained staff



Clinical Staff

- Psychiatrist practicing at hospital
- Appropriate Group therapy



Clinical Activity

- Measuring clinical activity
- Group & individual therapy
- Radiology & Pathology



Efficiency Metrics

- Clinical analytics providing a breakdown of costs
- Risk adjusted



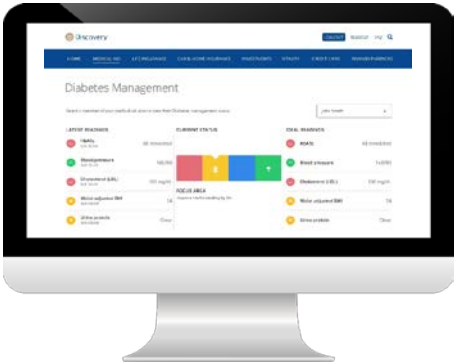
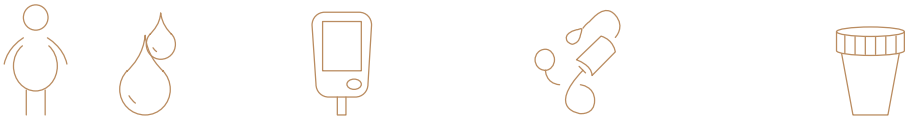
Clinical Outcomes

- Clinical analytics comparing outcomes measures

New DiabetesCare care programme for DHMS members

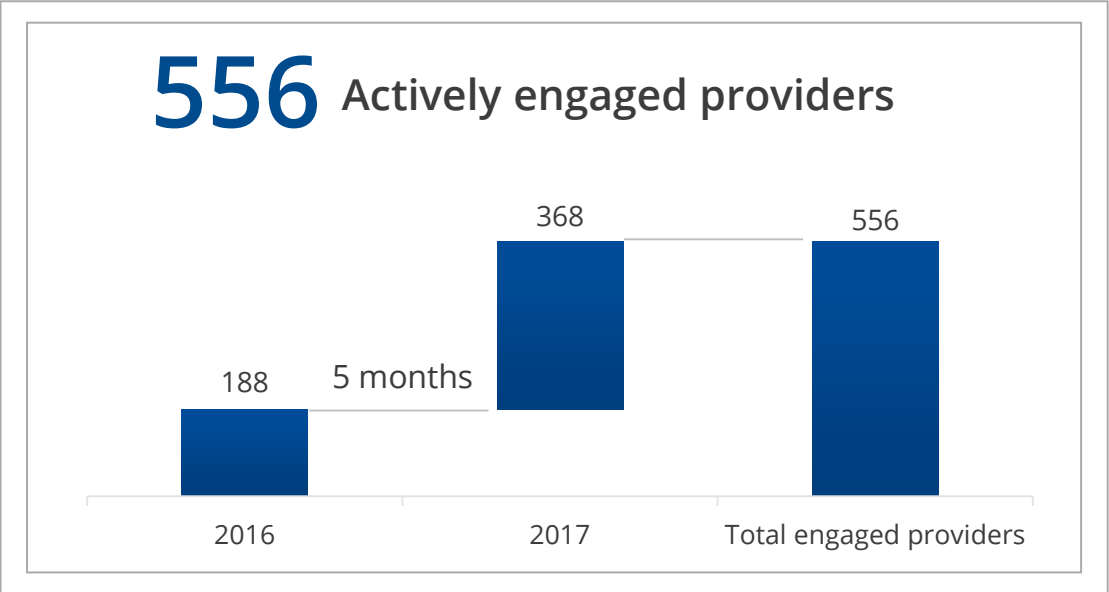
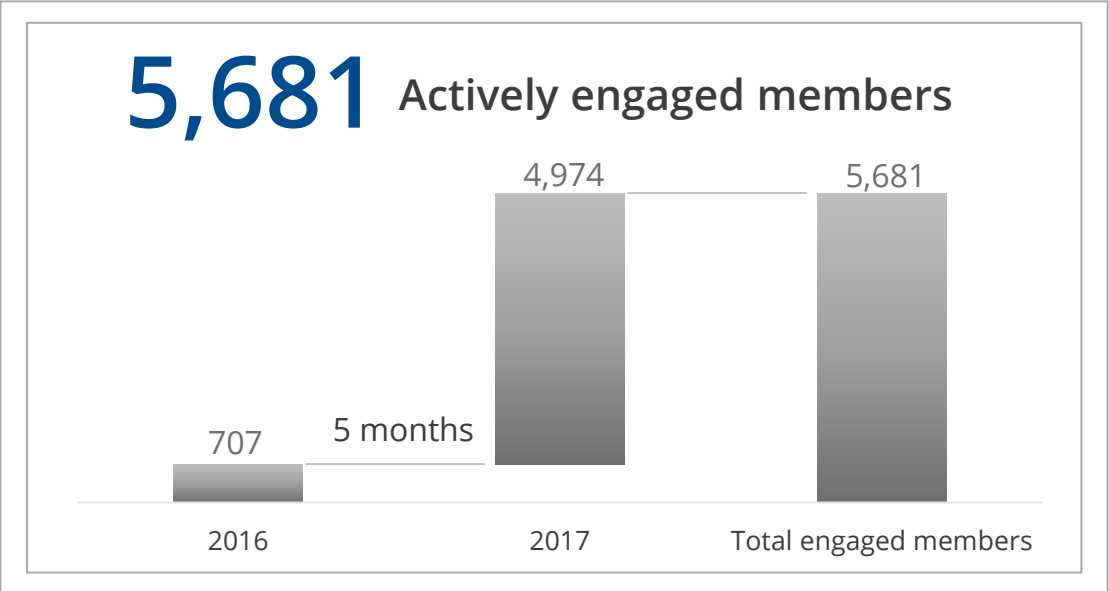


f(BMI, HbA1c, Cholesterol, Blood pressure, Urine protein)
 Waist adjusted



High uptake and positive impact on outcomes

(HbA1c testing **69%** vs 32%)
 (Medication compliance **74%** vs 63%)



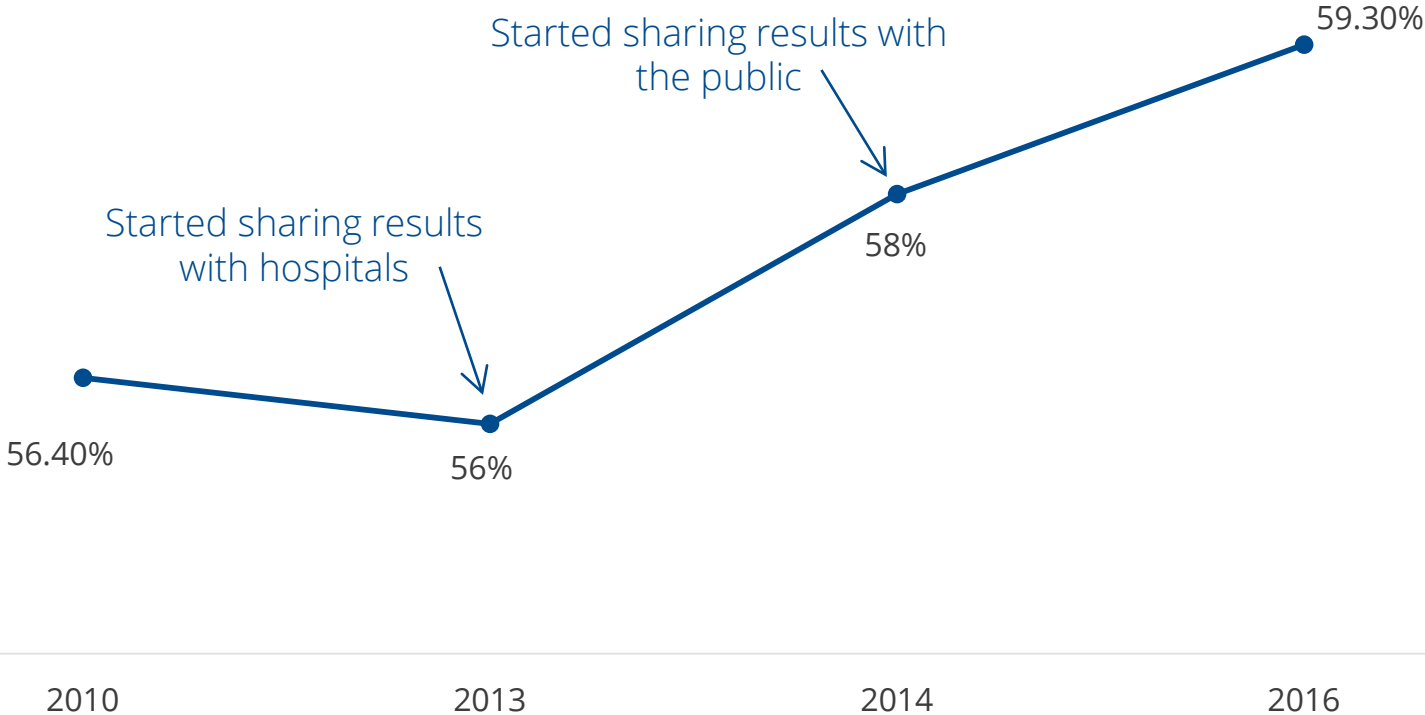
Notes: Adherence rates/process measures experienced on the current network vs non-network lives

Using data to improve patient experience and outcomes through hospital rating tools



Hospital and Doctor Rating Tools

Patient Satisfaction Score (PaSS): National average



2017 PaSS enhancements

- Clinical outcomes, such as:
- Infection rates
 - Mortality rates

Discovery Health's strategy for DHMS



01 | Lowering healthcare costs

02 | Improving quality of care for scheme members

03 | **Using digital technology to transform healthcare and member servicing**

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Discovery Health's expanding digital landscape



Members

- Personal Health Record
- SmartPlan
- App and web tools
- Virtual Assistant
- Pypestream
- **Medical library**
- **Virtual consults**

Healthcare Providers

- HealthID
- Practice Manager Connect
- Vitality Active Rewards FOR DOCTORS
- **Patient engagement tools**
- **Electronic medical record**

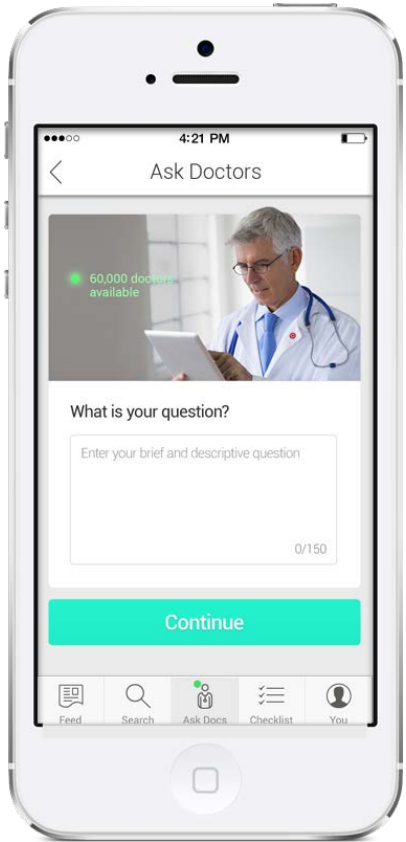
Case Managers

- Benefit Management System
- **Clinical Vault**
- **Care Management**

Discovery Health **Discovery Health's Digital Landscape** Powered by

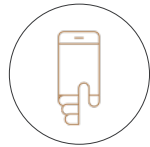
Doctor AI | **Communication platform** | **Electronic Medical Record Light** | **Care pathways** | Powered by **HealthTap**

Key features available through member app, website and HealthID app and web



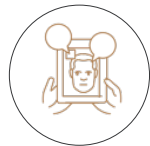
Ask a Doctor

- Database of 5.5bn paired questions and answers from over 107,900 doctors internationally



Virtual Care

- Multi-channel virtual consultations your doctors
- Asynchronous text messaging



HealthID Plus

- Patient questions feed
- Virtual practice tools



Care Pathways

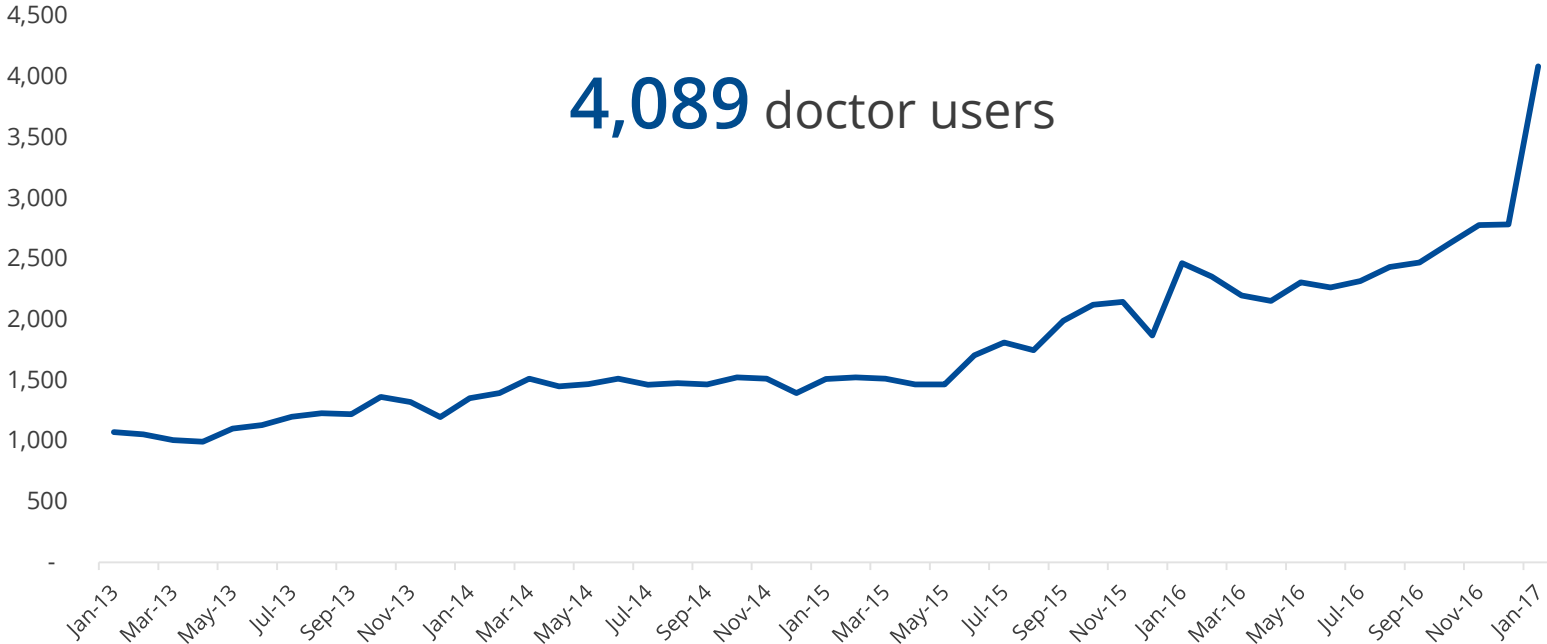
- Defined four care management pathways
- Dashboards for patients, doctors and case managers

Immediate access to top doctors

Reduced costs, better quality care

Healthier patients, happier doctors, higher income

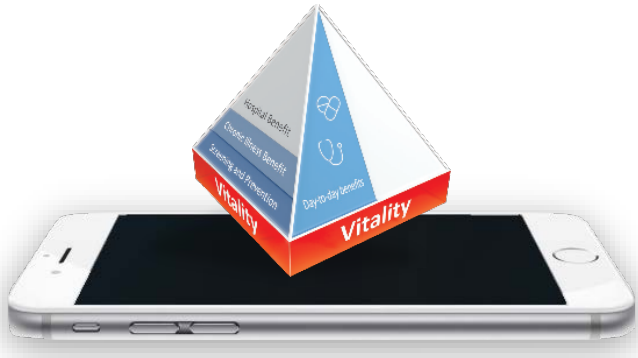
Digital technology facilitates better healthcare through care coordination



% of GP visits
47%

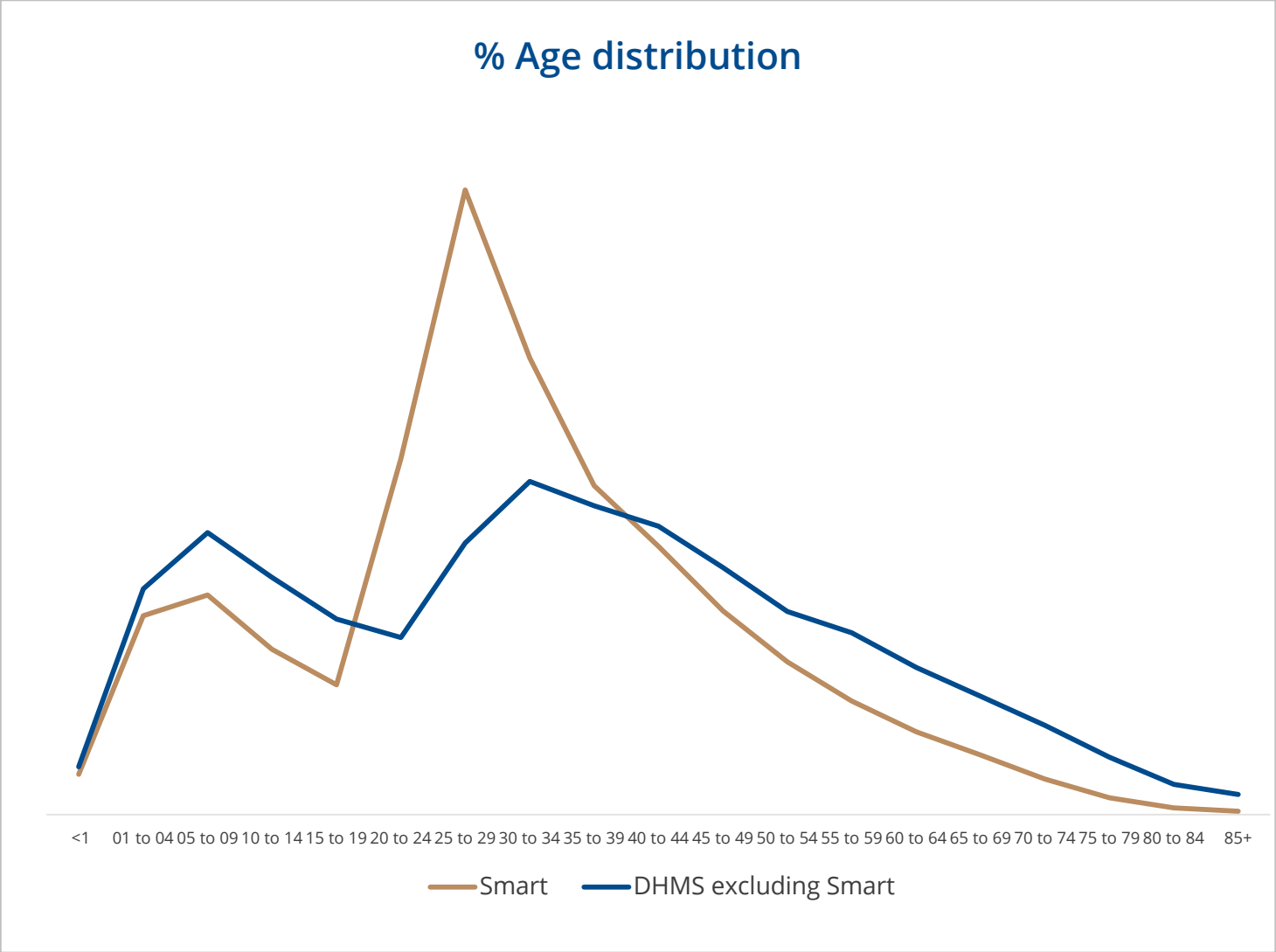
Member consents
+1.2m

Smart Plan | Attracting a younger and healthier profile



Smart Plan demographics

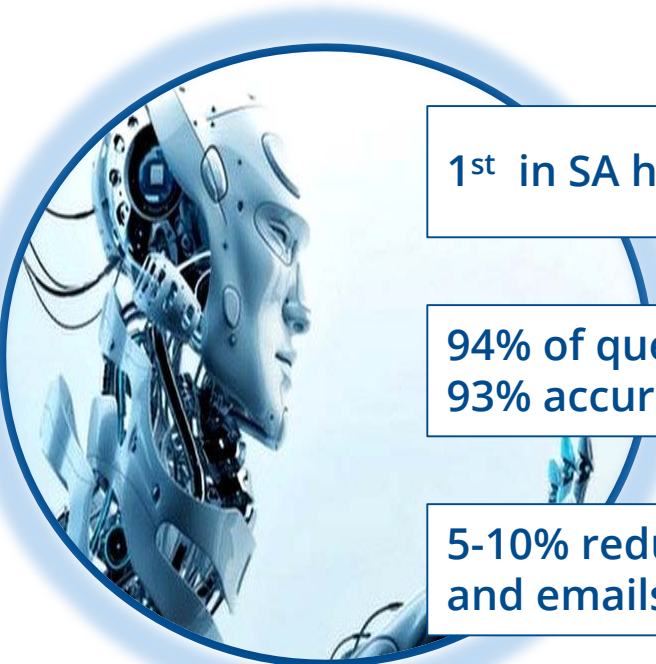
	Smart Series	DHMS
Lives	40 755	2 703 980
Average Age	30 years	34 years
Pensioner ratio	4%	9%
Chronic ratio	13%	23%



Increasing investment in digital innovation to enhance service operations



Virtual Assistant



1st in SA healthcare

94% of queries answered with 93% accuracy

5-10% reduction in general calls and emails

24/7VIRTUAL
ASSISTANT

Chat-Based Servicing launched in February 2017



Mobile messaging platform that connects business with their customers

Perception rating = 8.8/10

Simple requests



Instant, automated responses

Complex interactions

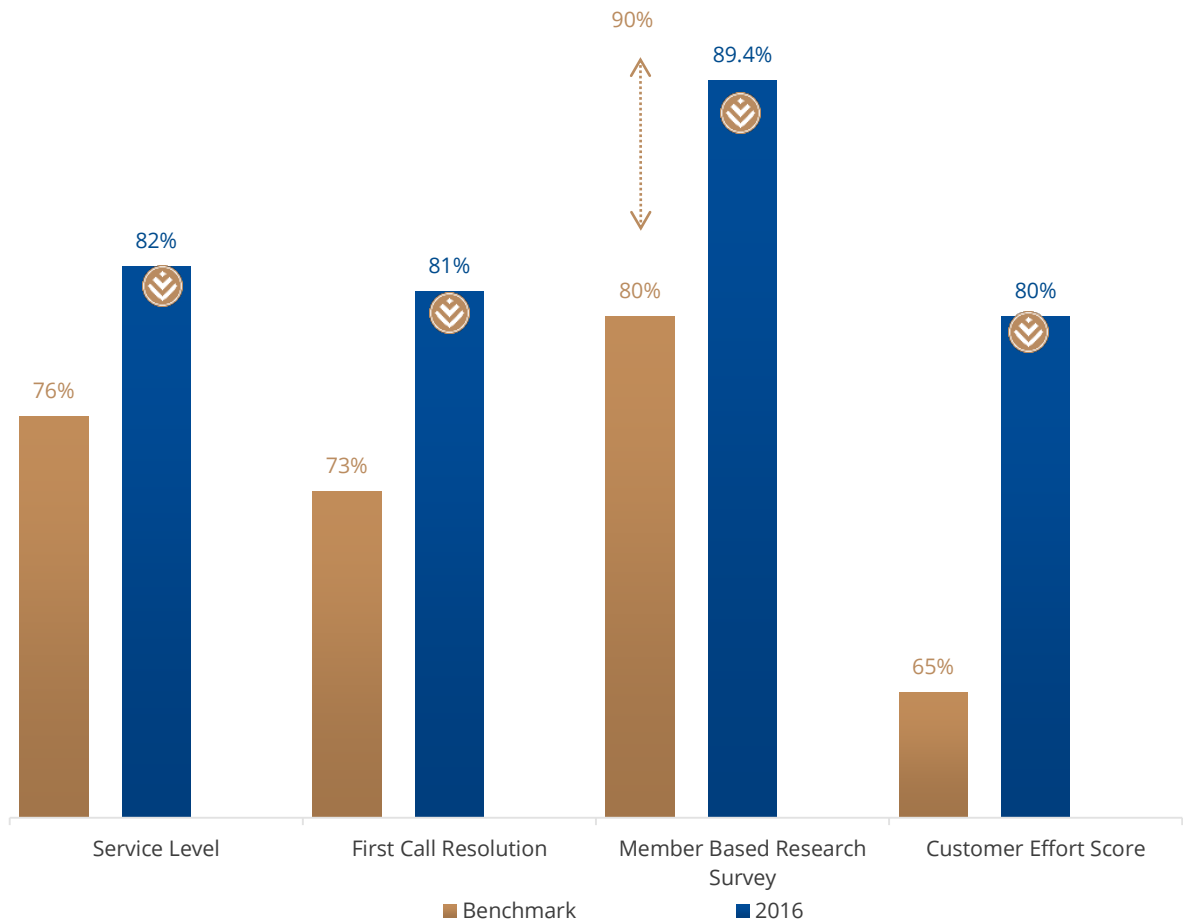


Service specialists

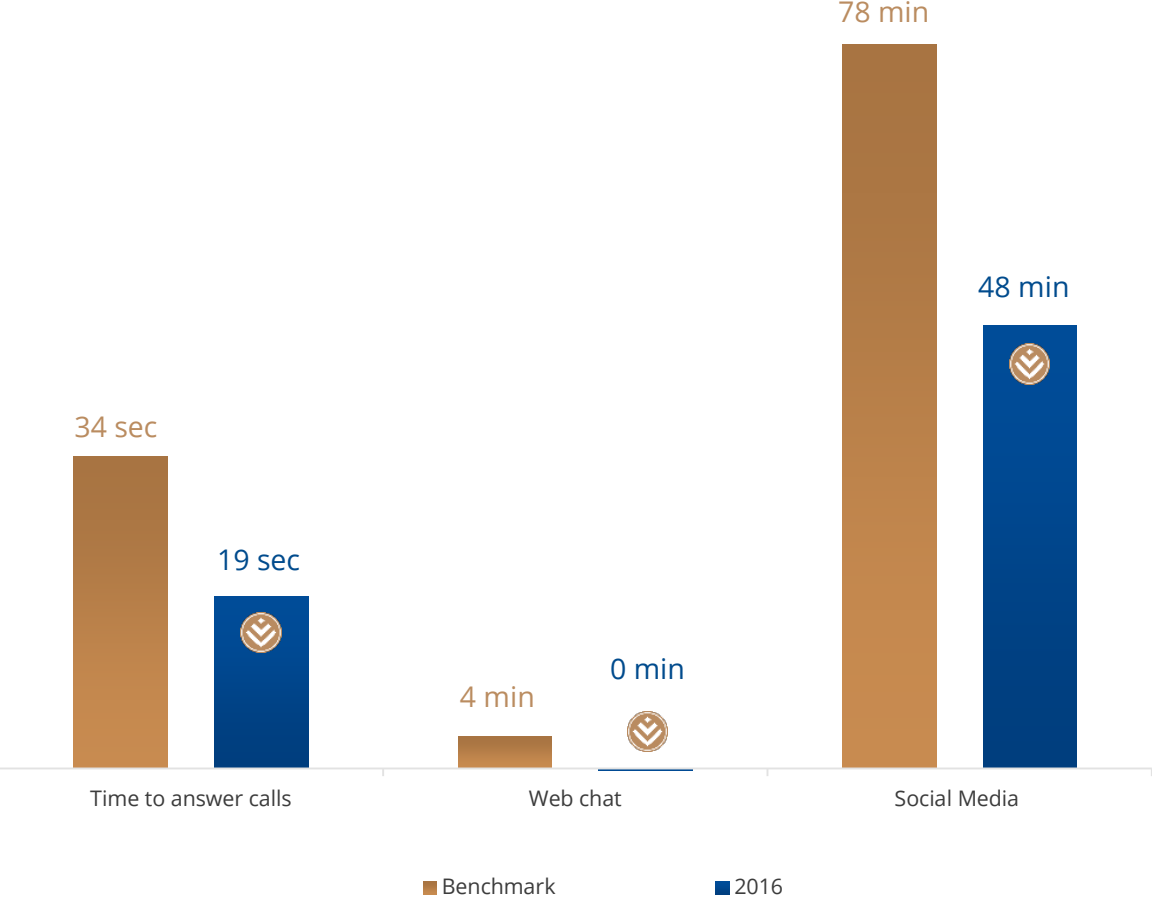
Operational performance consistently better than global best practice benchmark



Leading service metrics



Quickest response time



Source: Independent benchmarking; McKinsey Service Comparison; 2016 Dimension Data's Global Contact Centre Benchmarking

Discovery Health's strategy for DHMS



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Wellness day enhancements

132 528 members screened during wellness days in 2016

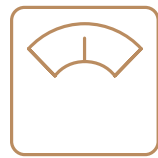
- Vitality Health Check screenings will now include the HbA1C blood glucose test

The HbA1C test can be considered if the following screening results are out of range:

Blood pressure



Weight assessment



Blood glucose



Discovery Premier Mobile wellness experience

- High-tech **mobile** experience is an ideal solution for **smaller companies** with fewer employees and employers with **space restrictions**
- Seamless experience - no set up or strike down



Vitality impacts positively on overall health engagement levels



Get Healthy



255 000
Vitality Health
Checks

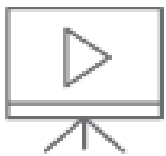


26 million
gym visits



20 million
Healthy Food
Baskets
bought

Get Rewarded



2.8 million
movies watched



1.7 billion
Discovery
miles earned

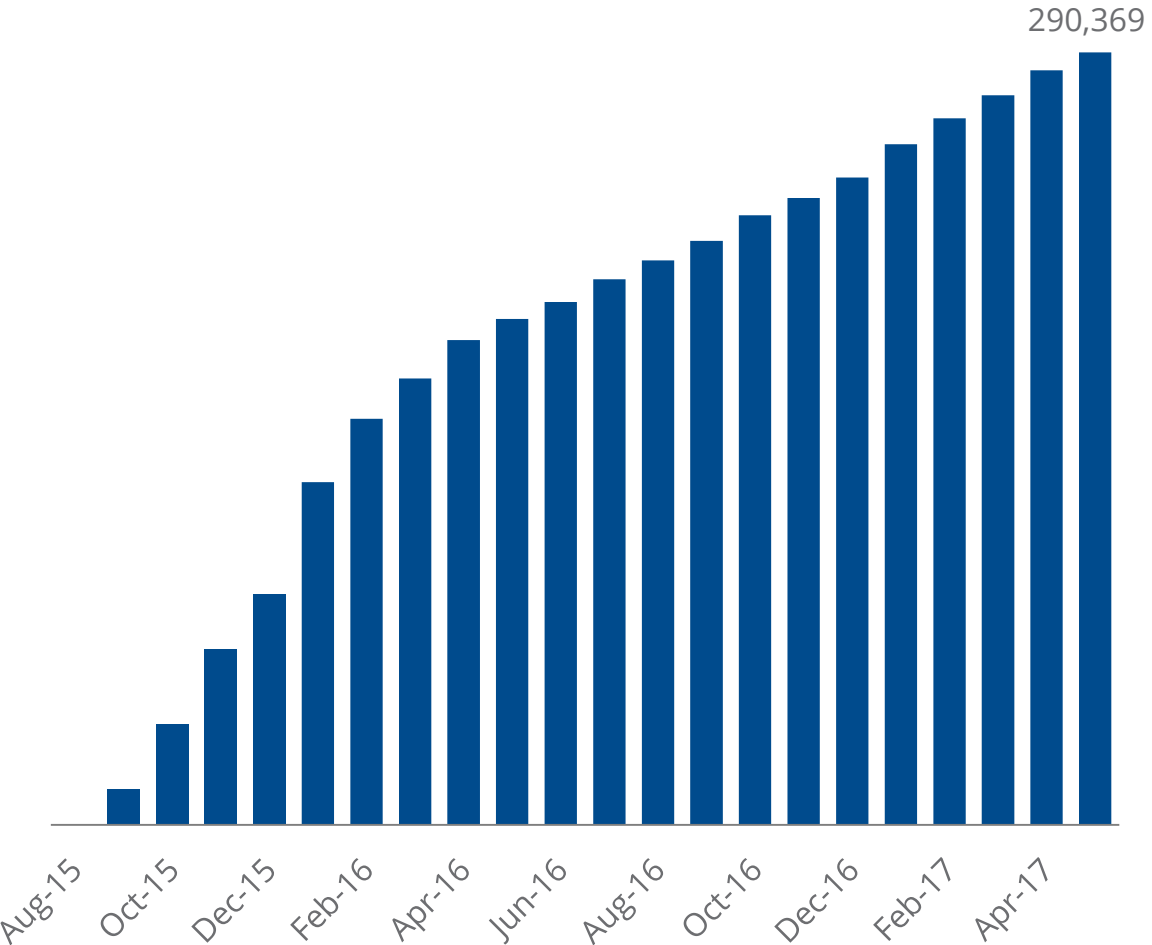


**1.25
million**
flights booked

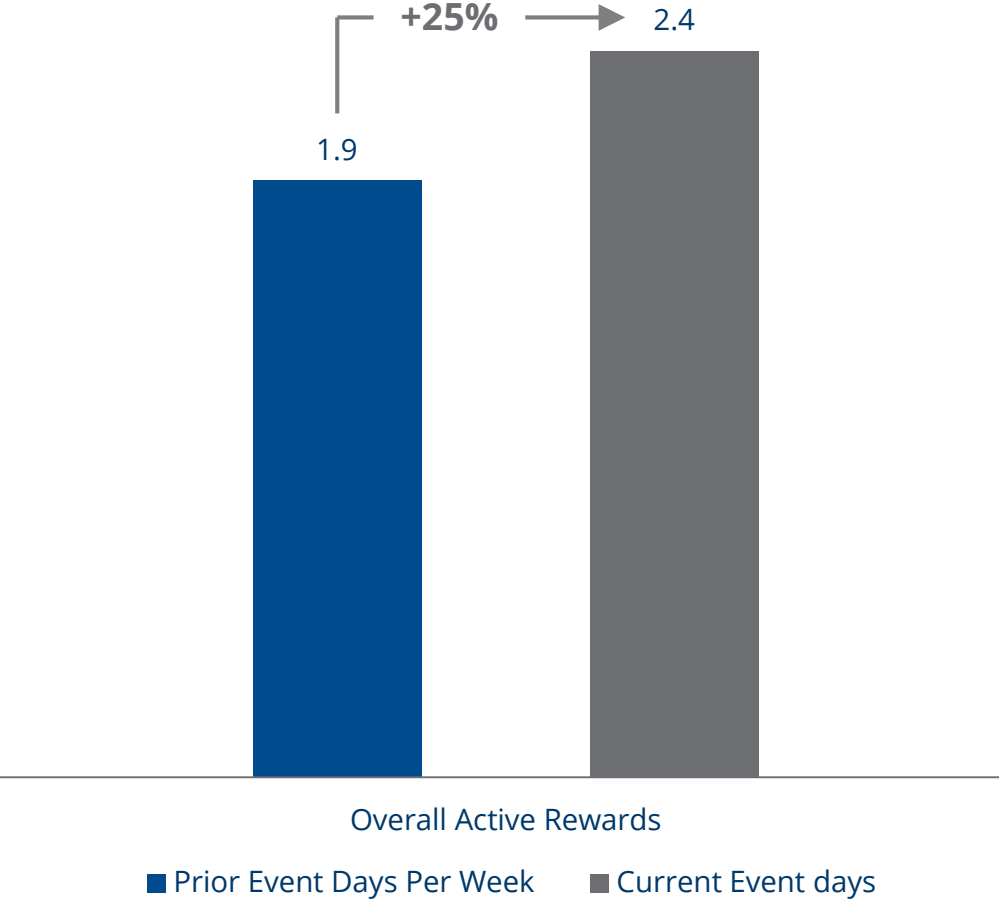
An increasing number of DHMS members are engaging with Vitality Active Rewards, with positive behavior change



DHMS members on Vitality Active Rewards



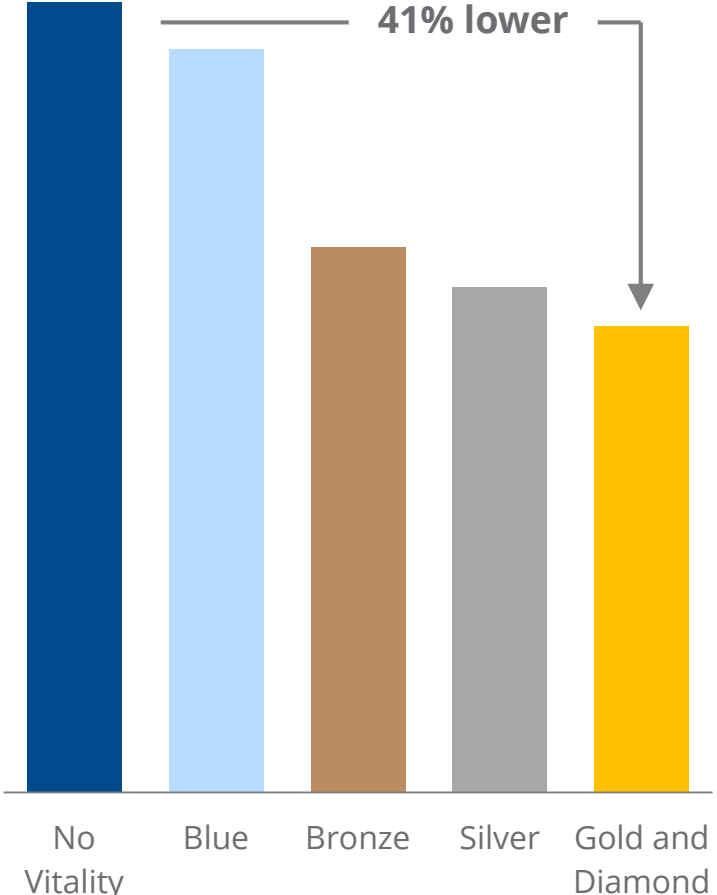
Change in number of physical activity days per week before and after Active Rewards



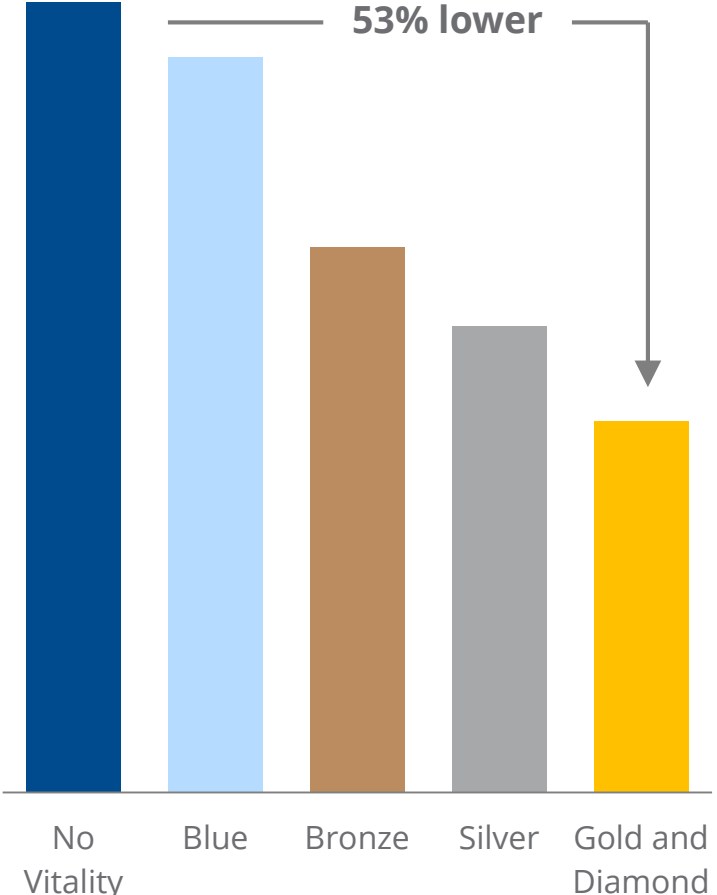
Vitality Status is associated with improved health status



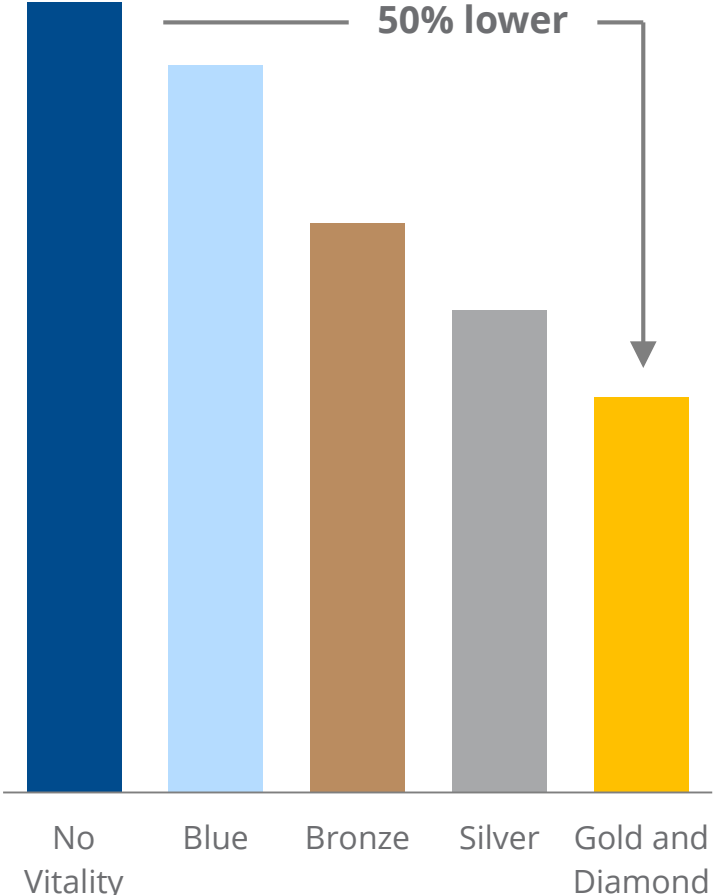
Heart disease



Diabetes



Lung disease



Notes: Disease specific risk claims in 2016, standardized for Age, Gender, Health Plan and Socio-Economic Status

The Discovery Health System



Better healthcare

- Managed Care Programmes**
KidneyCare, HIVCare, CCP, DiabetesCare
- Integrated Pharmacy Benefit Management Strategy**
- Patient Satisfaction Score (PaSS)**
- HomeCare & AIB**
- Centres of Excellence**



Better health

Discovery Vitality
Healthy Company:
132 000+ screenings

Vitality Active Rewards:
>25% increase in physical activity

Technology

- Smart plan**
40 000+ lives
- HealthID**
1.2 m member consents
- Discovery Member App**
2.6 m monthly logins
- DrConnect** by HealthTap
- Virtual Assistant Chat-Based Servicing**

Lower cost

- 15% lower premium than market**
- 209% ROI on Managed Care Fees negotiation**
- R5.6bn Scheme savings**

R800m invested in systems & technology per annum



Discovery Health Medical Scheme: Annual General Meeting

Dr Jonathan Broomberg – CEO Discovery Health

22 June 2017



Discovery Health Medical Scheme: Annual General Meeting
Remuneration Presentation
22 June 2017

1. Remuneration Governance
2. Trustee Remuneration Policy
 - Remuneration of the Board of Trustees
 - Remuneration Methodology
 - Market Benchmarking
3. Proposed 2017 Trustee Remuneration
 - Trustees
 - Chairpersons

- The Board of Trustees is responsible for the development and implementation of a Remuneration Policy for Scheme employees as well as the Board of Trustees and Board Committee members.
- The Board of Trustees has delegated the responsibility of Scheme remuneration oversight to a Remuneration Committee (REMCO).
- REMCO constitution – Independent Chair and two Trustees.
- REMCO makes use of independent expert consultants and market benchmarking to assist the Committee in terms of best remuneration practices.

- **Adoption and Approval of Remuneration**
 - Trustees remuneration - presented at this AGM for majority vote by members, after the approval thereof by the Board of Trustees, on recommendation of the REMCO.
- **Approval of Trustee Remuneration Policy**
 - Trustee Remuneration Policy – tabled at the 2015, 2016 and this AGM for a non-binding advisory vote by members as per the King III Code.
- **Trustee Remuneration Disclosure**
 - AGM – members;
 - Regulator - Council for Medical Schemes;
 - Integrated Annual Report.

Remuneration of the Board of Trustees

-
- **Annual Trustee fees are split into:**
 - Annual base fee paid quarterly in arrears;
 - Meeting fee;
 - In the event of non-attendance of a meeting the meeting fee is not paid.
 - **Trustee training**
 - Trustees are NOT paid for attending training or conferences over and above the training fees, travel costs, accommodation and subsistence costs.
 - **Consulting fees**
 - Trustees are NOT paid any consulting fees.
 - **Incentive programmes**
 - Trustees do not participate in any incentive programmes.
 - **Reimbursement of expenses**
 - Trustees are reimbursed all reasonable expenses incurred by them in the performance of their duties as a Trustee.

Remuneration Methodology

- The DHMS REMCO engaged PwC's Remuneration Practice in 2014 to assist in developing a new remuneration methodology and benchmark applicable to Trustees, taking into account that DHMS is a non-profit organisation and the guidelines of Circular 41 of 2014 issued by the CMS.
- The methodology is based on a professional fee (hourly rate), discounted at an applicable rate (non-profit entity) and total remuneration takes the following elements into account:
 - Number of meetings per year;
 - Preparation time for each meeting;
 - Duration of meetings;
 - Additional time required by the Chair of the Board of Trustees and Chairpersons of Board Committees in the execution of their duties.

Remuneration Benchmarking

- Schemes were advised in terms of Circular 41 of 2014 not to use the remuneration benchmarking of non-executive directors of listed companies.
- DHMS' market benchmarking methodology (developed by PwC):
 - Professional fees/rates for professionals in the fields of law, actuarial science, medicine, accounting and commerce;
 - Professional fees discounted at an applicable rate to take into account the non-profit status of the Scheme;
 - The new market benchmarking methodology was submitted to the CMS on 28 November 2014.

Remuneration Implementation: Multi-year Fee Implementation

Please note: The multi-year fee implementation has been approved at the 2015 AGM. The detail provided below is for information purposes.

- Multi-year phased-in approach approved by 94.57% of the members in attendance during the 2015 AGM
 - R4 000 less 40%
- The 2016 Trustee fee based on a professional fee rate and approved by 98% of the members in attendance during the 2016 AGM
 - R4 240 less 35%
- 2017 Professional fee benchmark
 - R4 515 less 30%
- 2018 onwards – annual fee benchmark
 - Fee less 30%

The total annual projected Trustee and Committee Member remuneration budget will not exceed 0.01% of gross annual contribution income per year, for the period 2015 - 2017.

Professional Fee Build-up for 2017: Chair of the Board

The table below provides an overview of the 2017 Proposed Chairman's remuneration and is based on the methodology as discussed in the Remuneration Policy. The fees presented are on a VAT exclusive basis.

Proposed fee build up for the Remuneration of the Chairman of the Board of Trustees	
Additional time requirements and preparation for Board Meetings ●	20
Attendance at Board Meetings	8
Total number of hours per Board of Trustee Meeting	28
Number of meetings per year (average)	8
Total number of hours per year for the Board of Trustees meetings (average)	224
Proposed professional hourly rate	R4 515.60
Estimated professional annual rate	R1 011 494.40
Discount on the basis that the medical scheme is a non-profit organisation	-30%
Total fee for Board of Trustee meetings *	R708 046.08

The annual base fee is R495 632.26

The meeting fee is R26 551.73

* The total fees as indicated will vary depending on the number of meetings attended per year.

● The additional time requirements are for matters that require deliberation at the Board Meetings, matters that arose from the previous meetings that require attention and resolution and Scheme strategic matters which require the Chair's involvement.

Professional Fee Build-up for 2017: Trustees

The table below provides an overview of the 2017 proposed Trustee remuneration and is based on the methodology as discussed in the Remuneration Policy. The fees presented are on a VAT exclusive basis.

Proposed fee build up for the Remuneration of Trustees	
Preparation for Board Meetings	8
Attendance at Board Meetings	8
Total number of hours per Board of Trustee Meeting	16
Number of meetings per year (average)	8
Total number of hours per year for the Board of Trustee meetings (average)	128
Proposed professional hourly rate	R4 515.60
Estimated professional annual rate	R577 996.80
Discount on the basis that the medical scheme is a non-profit organisation	-30%
Total fee for attendance at a Board of Trustee meeting *	R404 597.76

The annual base fee is R283 218.43

The meeting fee is R15 172.42

*The total fees as indicated will vary depending on the number of meetings attended per year.

Trustees also serve on Board Committees together with Independent Committee members, for which they receive remuneration as per the Remuneration Policy.

Professional Fee Build-up for 2017: Chairpersons of Board Committees

The table below provides an example of the 2017 proposed remuneration calculation for a Chair of a Board Committee* and is based on the methodology as discussed in the Remuneration Policy. The fees presented are on a VAT exclusive basis.

Proposed fee build up for the Remuneration of a Board Committee Chair	
Additional time requirements and preparation for Board Meetings ●	11
Attendance at Board Committee Meetings	4
Total number of hours per Board Committee Meeting	15
Number of meetings per year (average)	5
Total number of hours per year for the Board Committee meetings (average)	75
Proposed professional hourly rate	R4 515.60
Estimated professional annual rate	R338 670.00
Discount on the basis that the medical scheme is a non-profit organisation	-30%
Total fee for Board Committee meetings #	R237 069.00

The annual base fee is R165 948.30

The meeting fee is R14 224.14

* The Audit Committee is used as an example.

The total fees as indicated in the tables will vary depending on the number of meetings attended per year.

● The additional time requirements are for matters that require preparation for Committee meetings, deliberation at the Board meetings, matters that arose from the previous meetings that require attention and resolution and Scheme strategic matters which require the Chair's involvement.



Thank you