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13



## 2013 Annual General Meeting

Adv Michael van der Nest  
Chairman of the Board of Trustees

# Agenda

1. Welcome and quorum
2. Minutes of the 2012 Annual General Meeting - for approval
3. 2012 Annual Financial Statements and Scheme Governance
  - 3.1 Financial performance of the Discovery Health Medical Scheme for the year ended 31 December 2012
  - 3.2 Discovery Health Medical Scheme Governance Review
  - 3.3 Discovery Health (Pty) Ltd strategic focus areas
  - 3.4 2012/13 Trustee remuneration
  - 3.5 Acceptance of the 2012 Annual Financial Statements
  - 3.6 Appointment of Auditors
  - 3.7 2012 AGM motions
4. Scheme amalgamations
5. Trustee election
6. Tea break
6. Motions
7. General
8. Closure



20  
13



## Discovery Health Medical Scheme Highlights for 2012

Milton Streak  
Principal Officer

# DHMS Key Measures

Measure	2011	2012	% change
Gross Contribution Income (R'000)	31,192,855	35,195,627	13%
Number of members at year end	1,075,866	1,140,090	6%
Number of lives at year end	2,354,351	2,469,023	5%
Open scheme market share	50%	51%	2%
Surplus (R'000)	570,410	788,790	38%
Solvency reserves per Regulation 29 (R'000)	7,328,795	8,240,820	12%
Solvency	23.50%	23.41%	0%

# Financial performance: Statement of Comprehensive Income

Income statement	2011 R'000	2012 R'000
Gross contribution income	31,192,855	35,195,627
Less Savings contribution income	- 6,219,912	- 6,969,850
Net contribution income	24,972,943	28,225,777
Net claims <sup>(1)</sup>	- 20,651,339	- 23,194,642
<b>Gross healthcare result</b>	<b>4,463,640</b>	<b>5,132,377</b>
Managed care: management services	- 882,883	- 991,216
Broker service fees	- 688,812	- 755,803
Expenses for administration	- 2,863,572	- 3,084,814
Other operating expenses	- 105,973	- 113,365
<b>Net healthcare result</b>	<b>- 77,600</b>	<b>187,179</b>
Net investment and other income <sup>(2)</sup>	648,010	601,611
<b>Net surplus for the year</b>	<b>570,410</b>	<b>788,790</b>

*Notes*

*(1) Net claims incurred less third party recoveries and the results of risk transfer arrangements*

*(2) Investment and other income less expenditure on interest and asset management services*

## 1 Continued, sustainable growth

- New business
- Withdrawals
- Plan movement

## 2 Financial strength and sustainability

- Member reserves
- Independent credit rating

## 3 Managing the cost of care

- Contribution competitiveness and increases
- Strategic benefit alignment

## 4 Operating and service performance

- Stringent service levels
- Service recognition

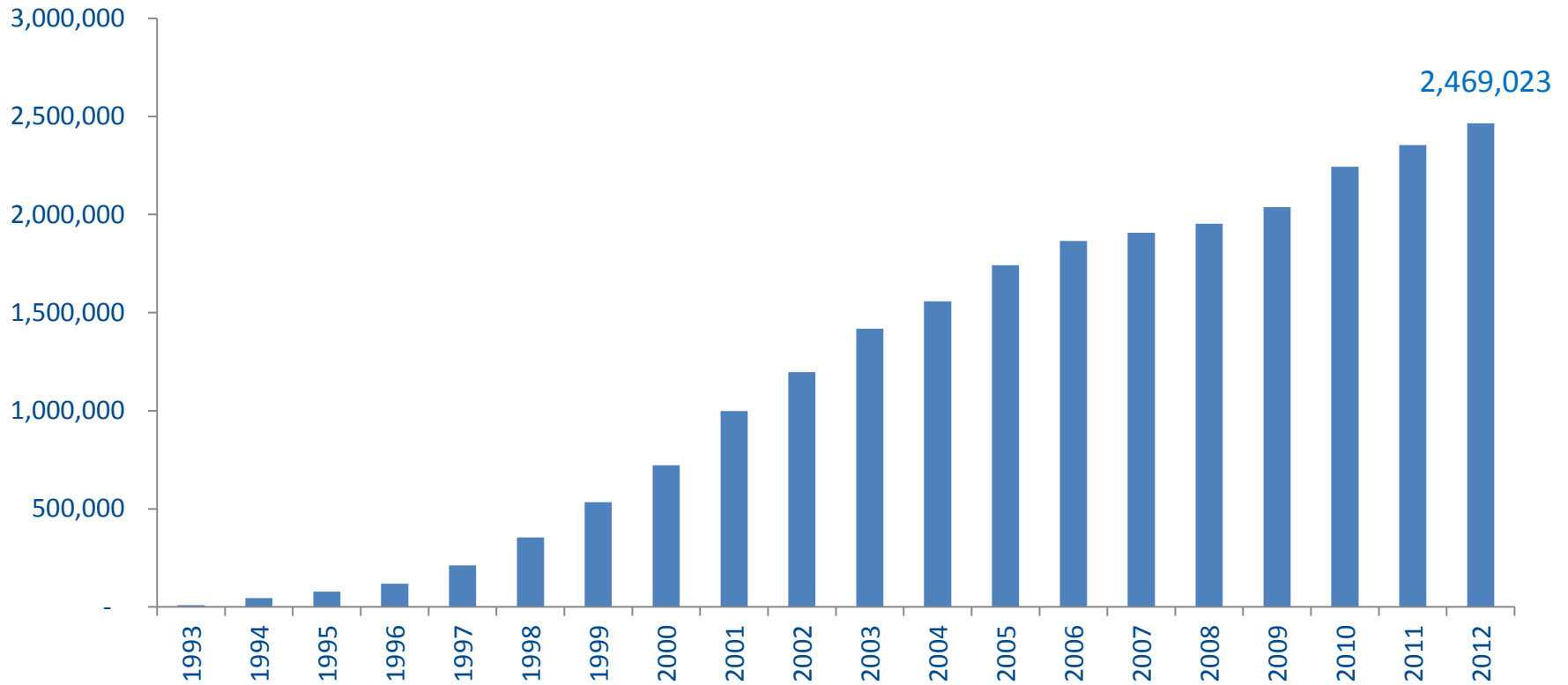
## 5 Governance

- Governance structure
- Governance practice

# Continued strong growth

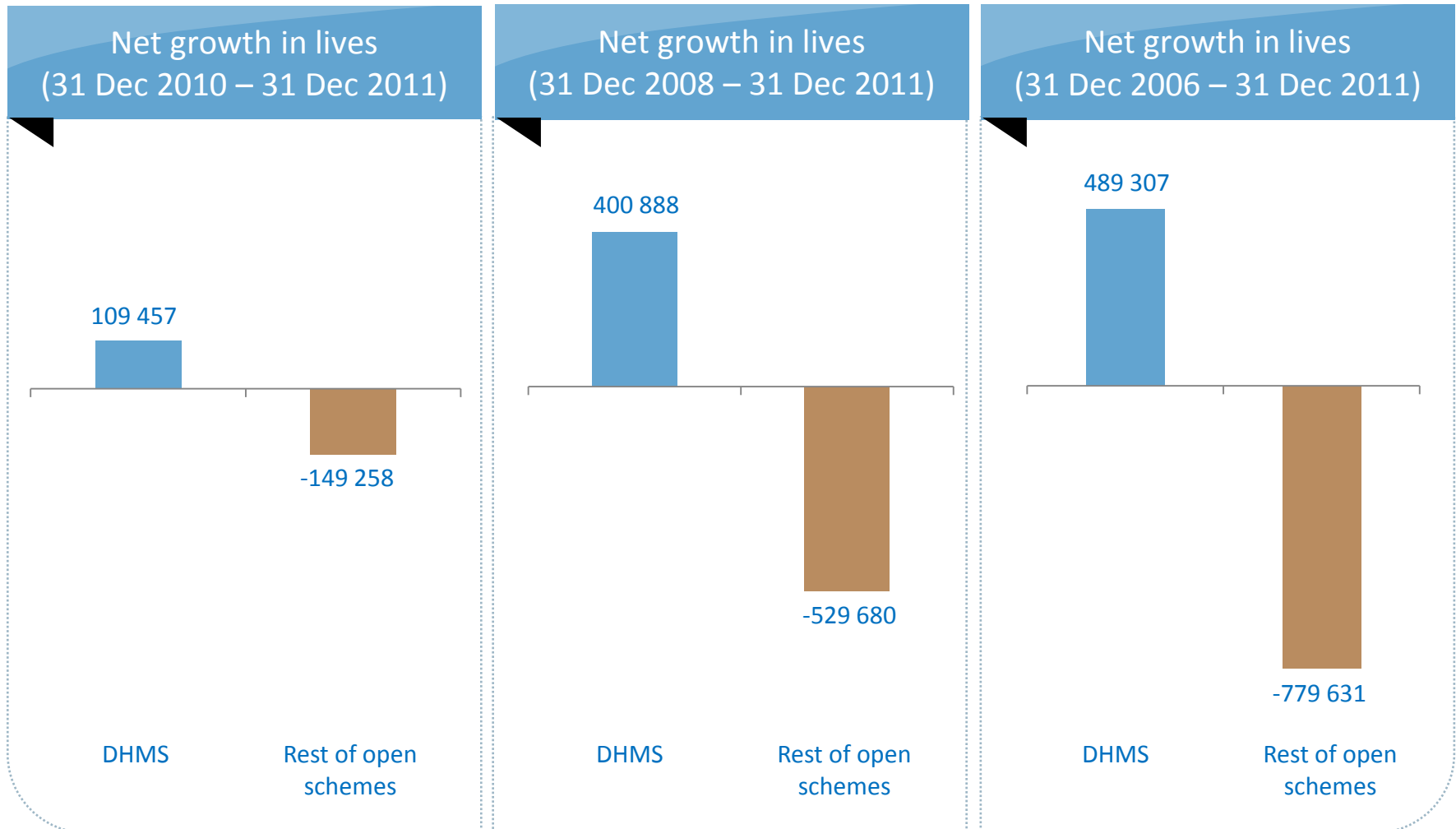


## Growth: DHMS lives covered



DHMS continues to have a low lapse rate at 4.1% in 2012

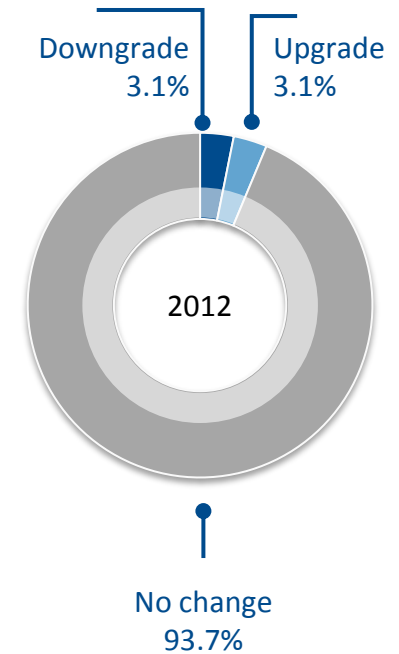
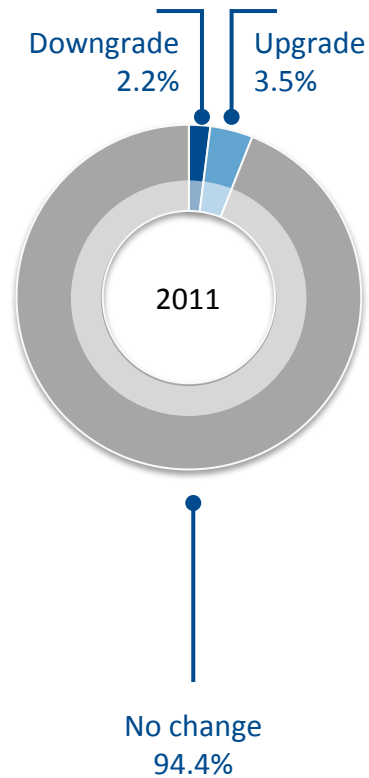
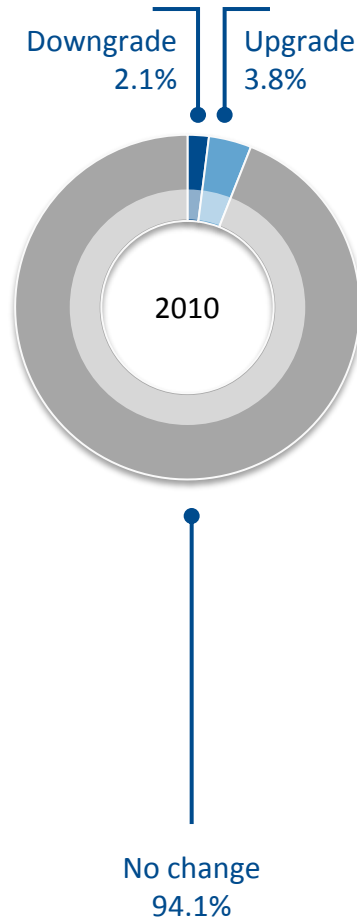
# Continuing flight to quality



DHMS continues to gain lives at expense of other open schemes

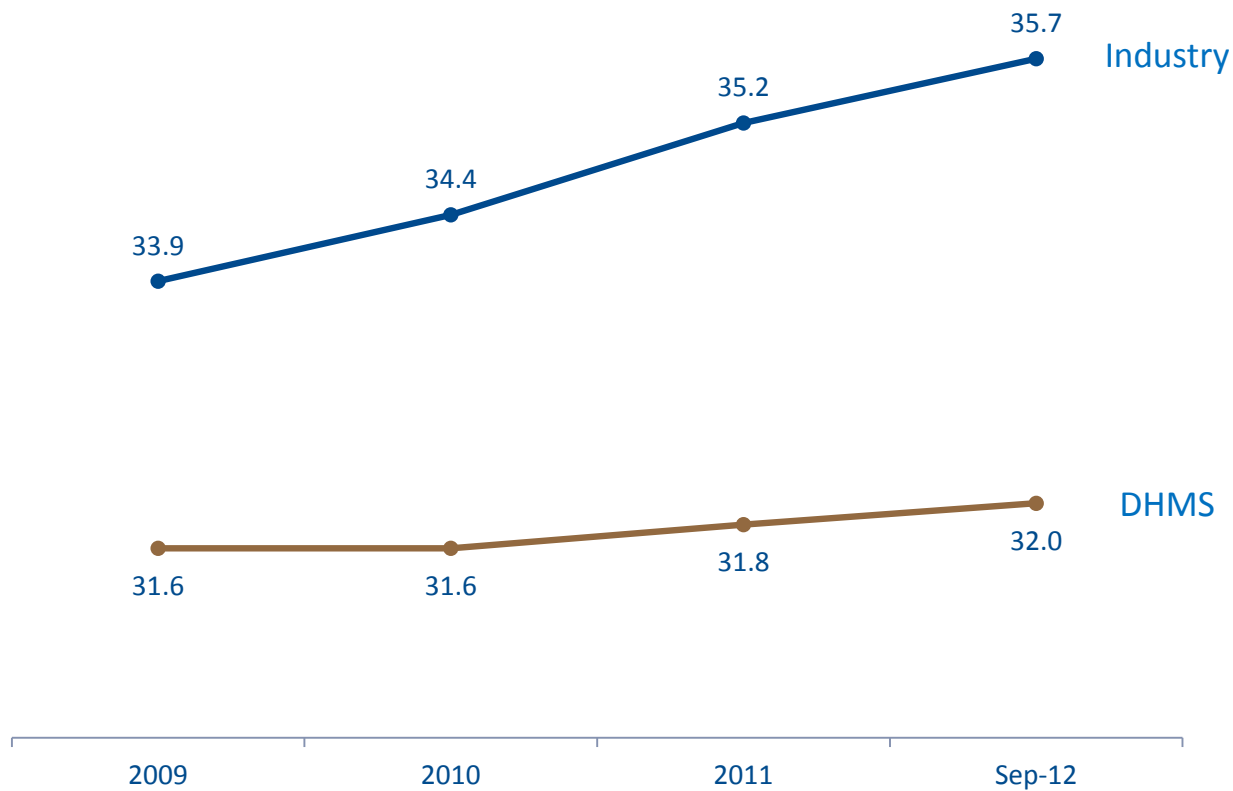


## Stability in plan movements



# Ability to attract young members impacts positively on age profile

## Age profile comparison



Since 2009:  
DHMS has aged by  
4.8 months, while  
the rest of the open  
schemes market has  
aged by 21.6 months

For every 1 year  
increase in age,  
contributions  
increase by 1.5-3%

# Key performance metrics

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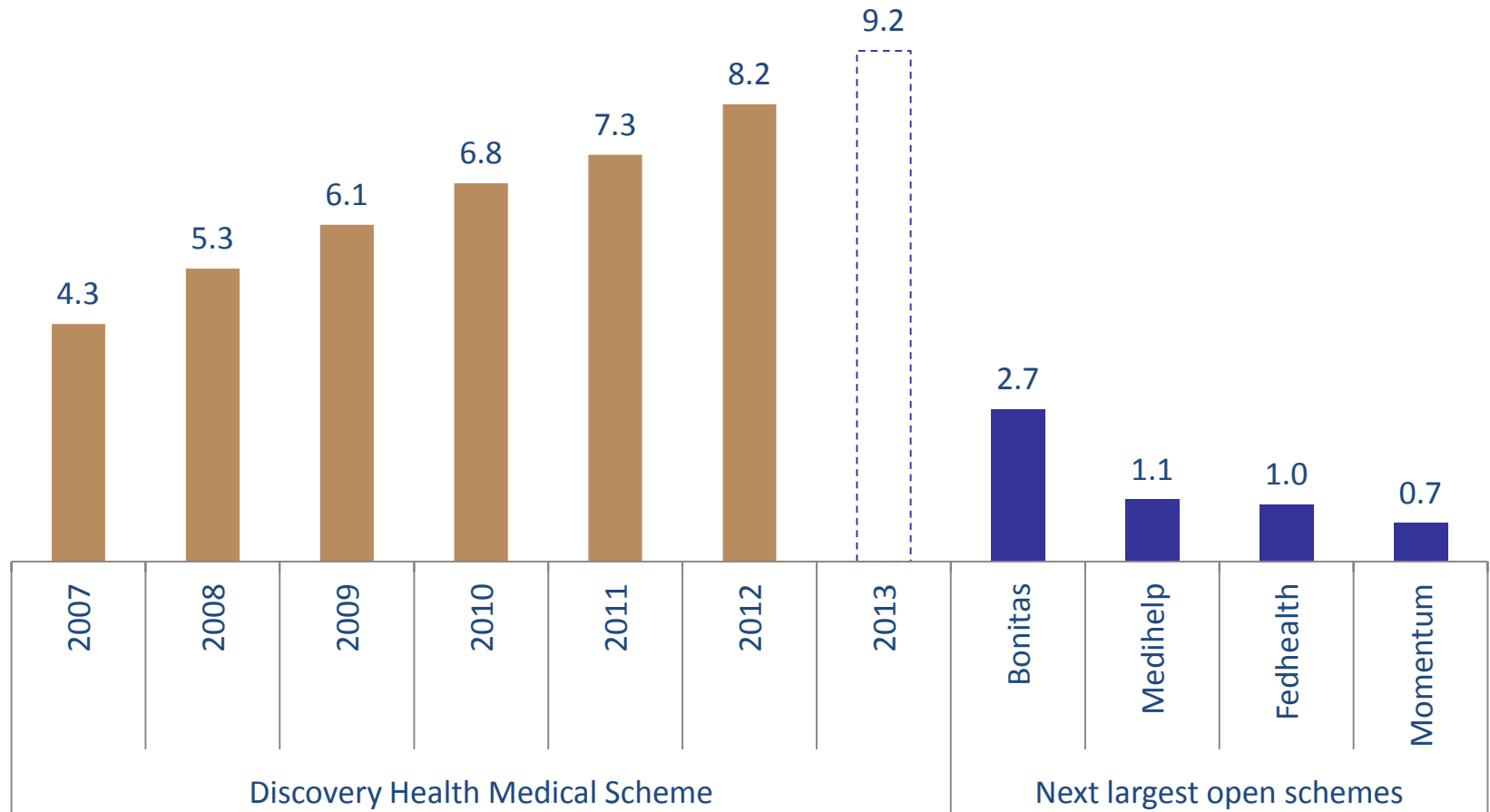
## 5 Governance

- Governance structure
- Governance practice

# R789m added to reserves in 2012



## Member reserves (R'-billion)



# DHMS: the only scheme to achieve the industry ceiling Global Credit Rating



GCR rating	Medical fund
AA <sup>+</sup>	DHMS
AA	
AA <sup>-</sup>	Medihelp   Fedhealth   Medshield **   Liberty   Bonitas   Momentum
A <sup>+</sup>	
A	Sizwe**
A <sup>-</sup>	
BBB <sup>+</sup>	
BBB	
BBB <sup>-</sup>	Resolution*

\*Placed on rating watch

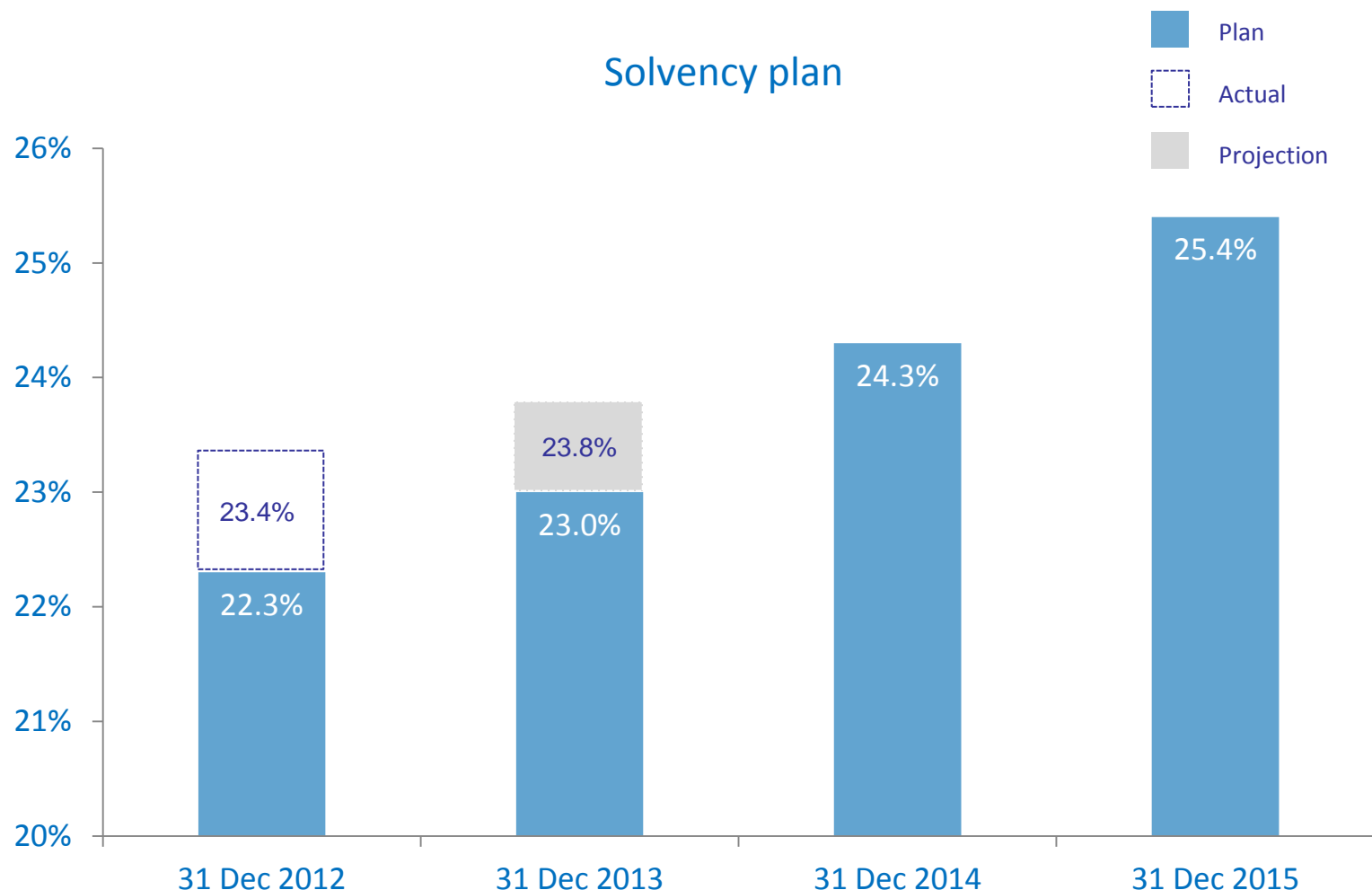
\*\*Placed under curatorship

Global credit rating: independent rating agency

Credit ratings: reflects a medical scheme's ability to pay members' claims

Discovery: has been awarded the highest possible rating for 13 consecutive years

# Solvency plan will increase statutory reserves to 25% by end of 2015



Scheme is performing better than the business plan approved by the Council for Medical Schemes

# Key performance metrics

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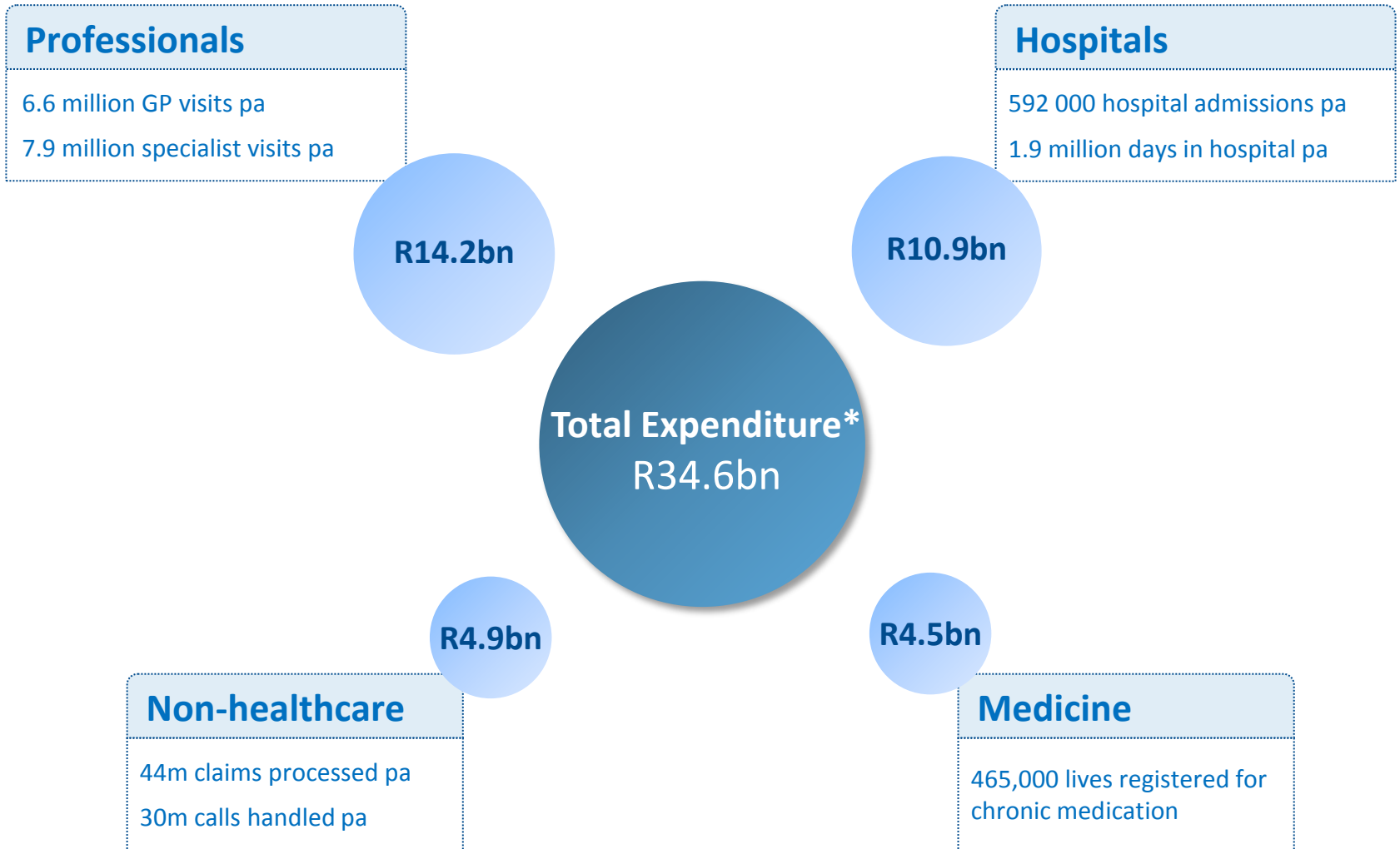
## 4 Operating and service performance

- Stringent service levels
- Service recognition

## 5 Governance

- Governance structure
- Governance practice

# DHMS funds a significant amount of healthcare expenditure



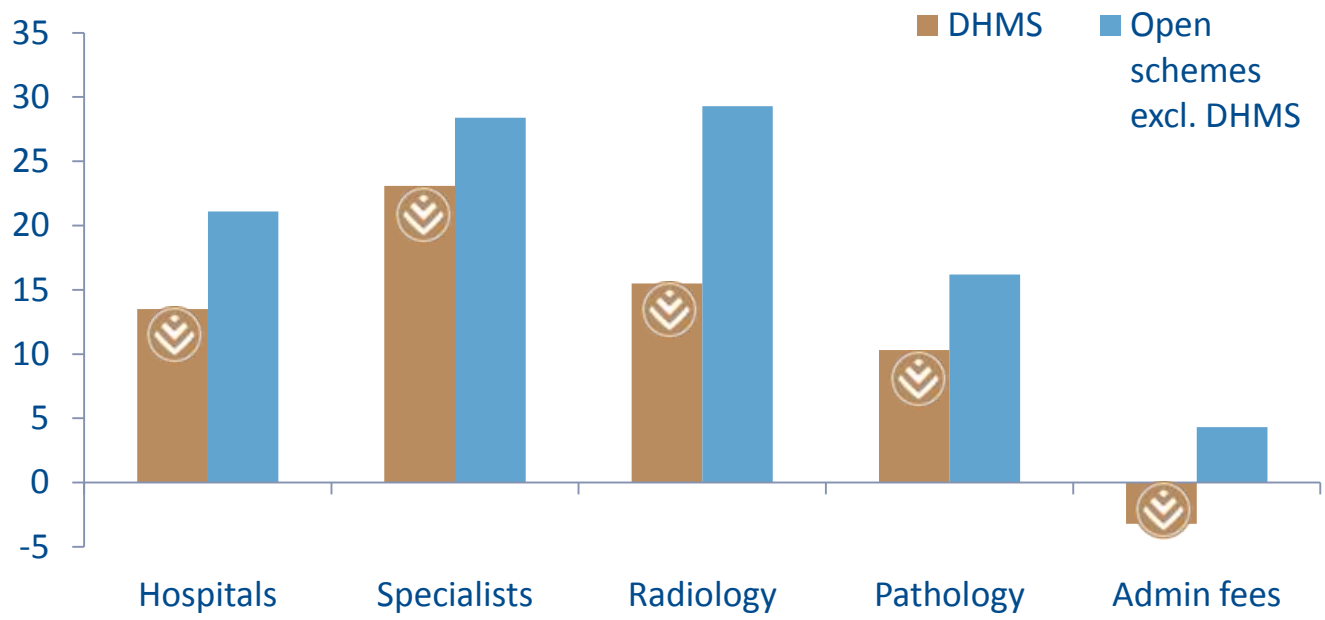
\* Risk claims, MSA claims and NHE



# DHMS has lower costs of care than all other open schemes



## % Growth in pabpm costs (2008 – 2011)



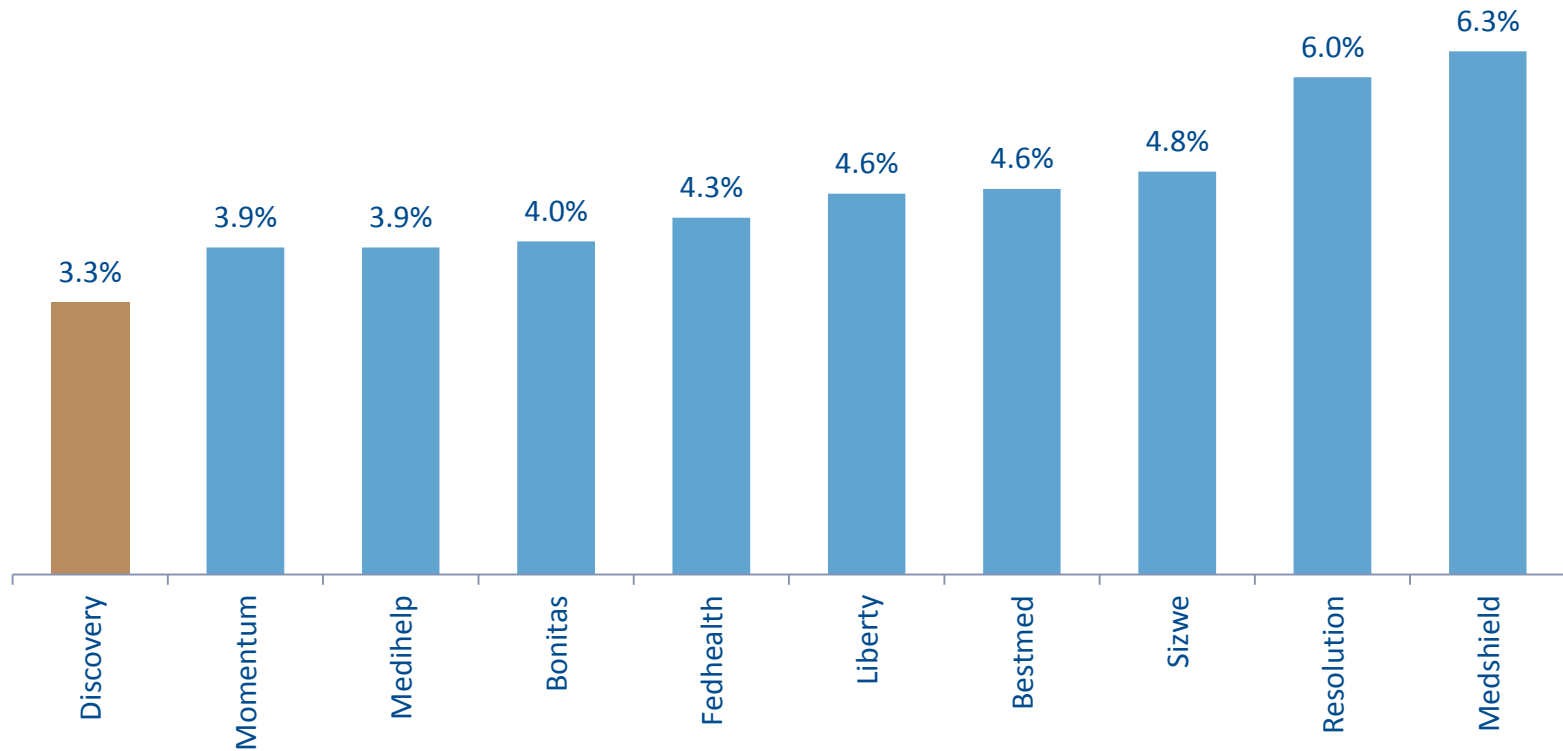
- Significant **price and contract advantage** in hospitals and pathology
- Superior **risk management** across all claims lines
- Impact of **Vitality**

18.8% lower claims cost per average beneficiary per month

# DHMS contribution increases 15% below competitors over the past 5 years



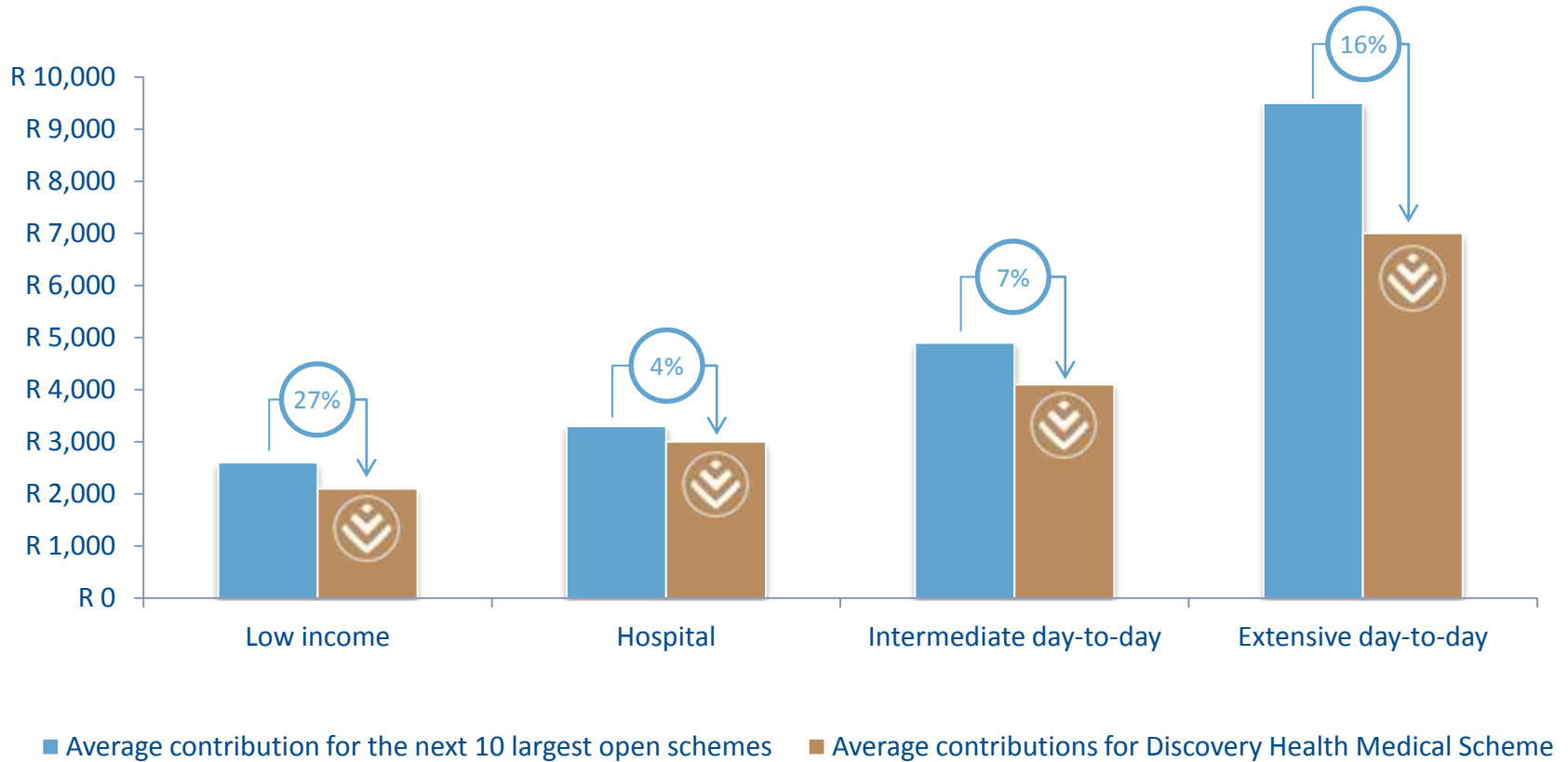
% annualised contribution increases relative to CPI (2008 – 2013)



# DHMS contributions are lowest across all plan types



## Average contributions for a family of four

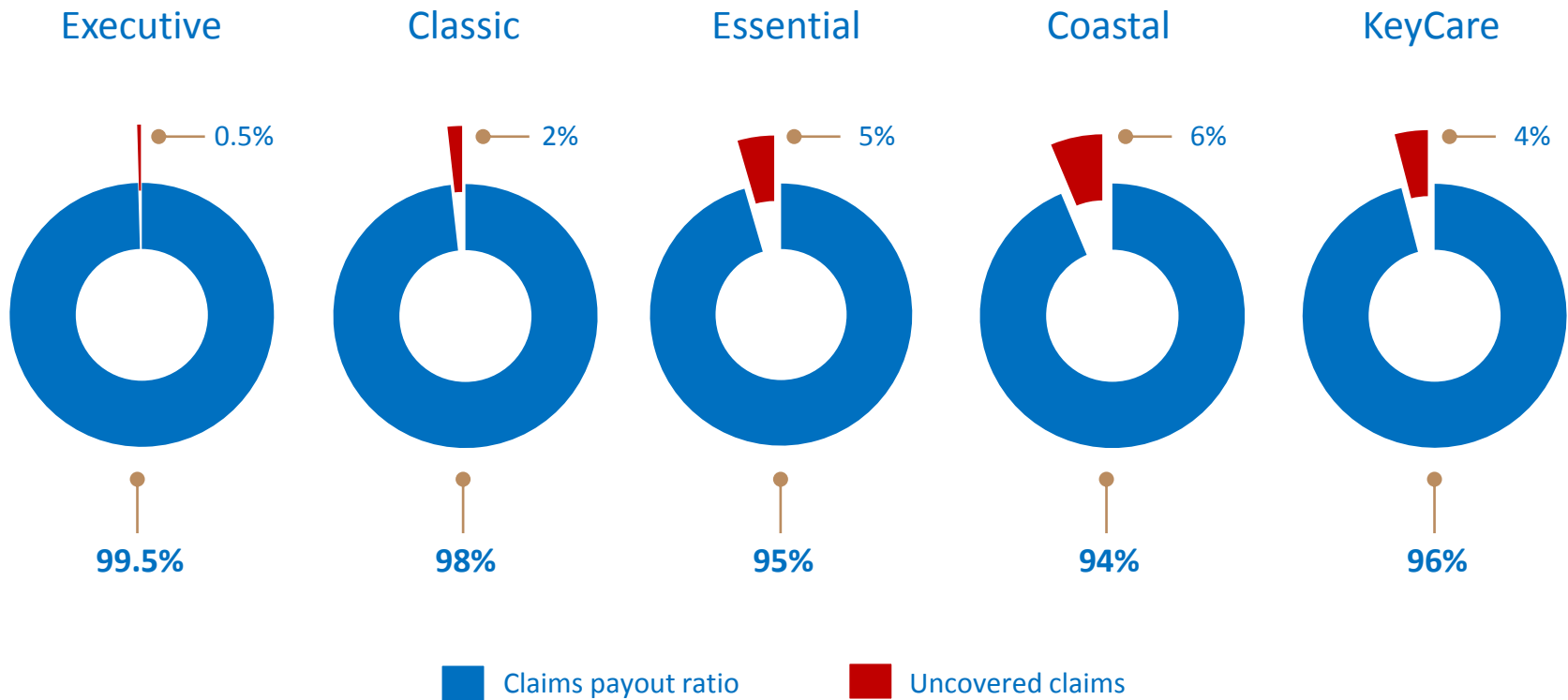


Average 15.2% lower contributions than the market

# DHMS benefits focus on comprehensive cover for critical care

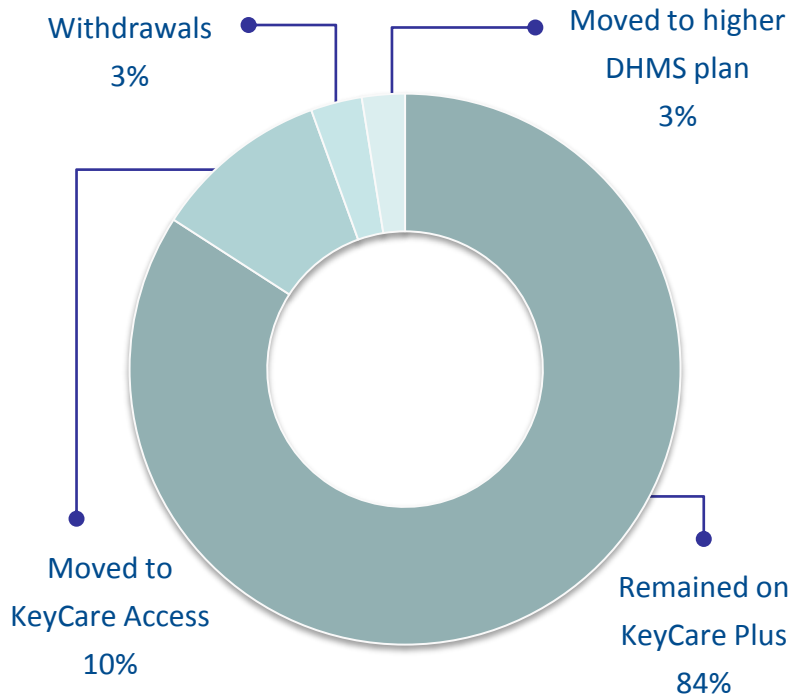


## In-hospital claims payout ratios (including medical specialists)



# Introduction of KeyCare Access benefits both members and the Scheme

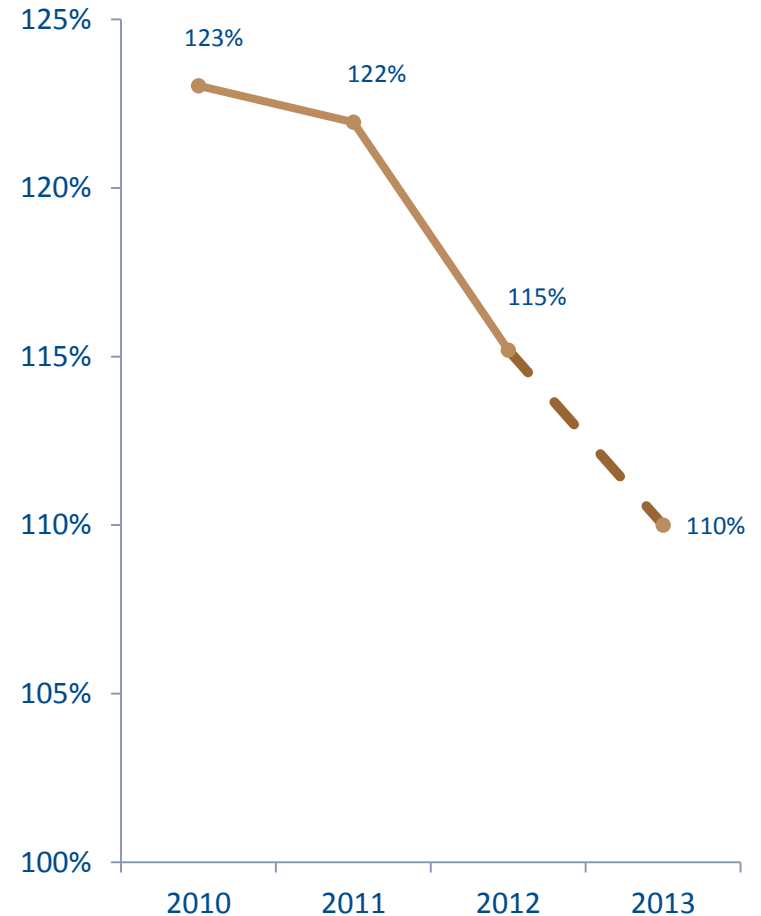
## Movement in the 87 076 lives on KeyCare Plus lowest Income band



### Movements on the lowest income band...

- 84% of beneficiaries remained on KeyCare Plus
- 10% of lives moved to KeyCare Access
- Only 3% of beneficiaries withdrew

## Managing the KeyCare Plus Loss Ratio



# Key performance metrics

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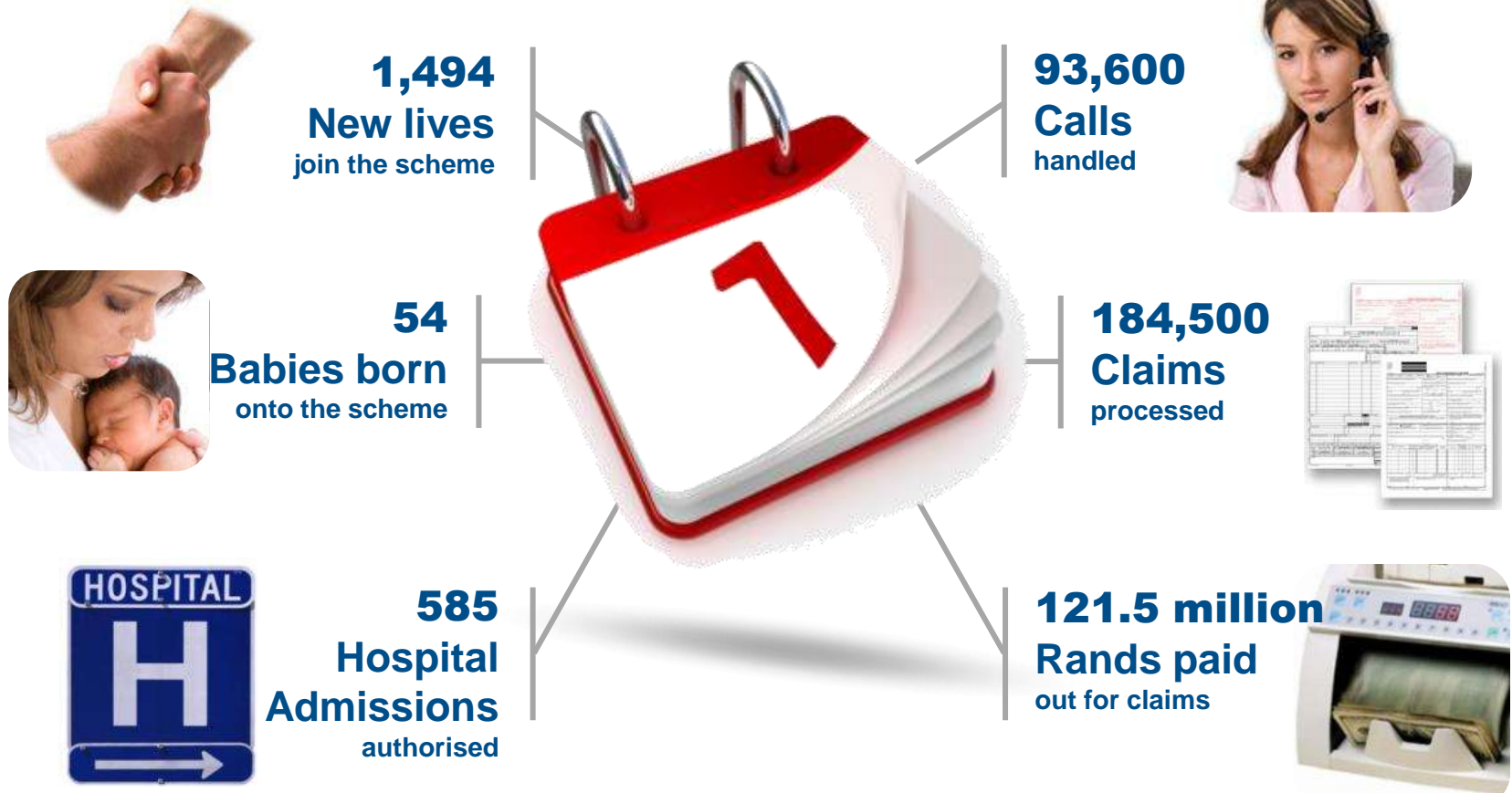
## 5 Governance

- Governance structure
- Governance practice

# Scale of Discovery Health Medical Scheme operations

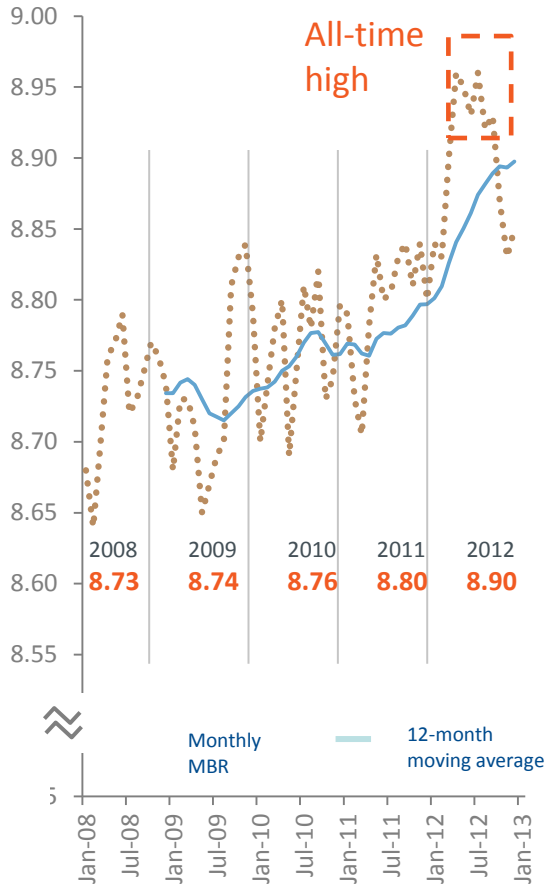


In every working day...



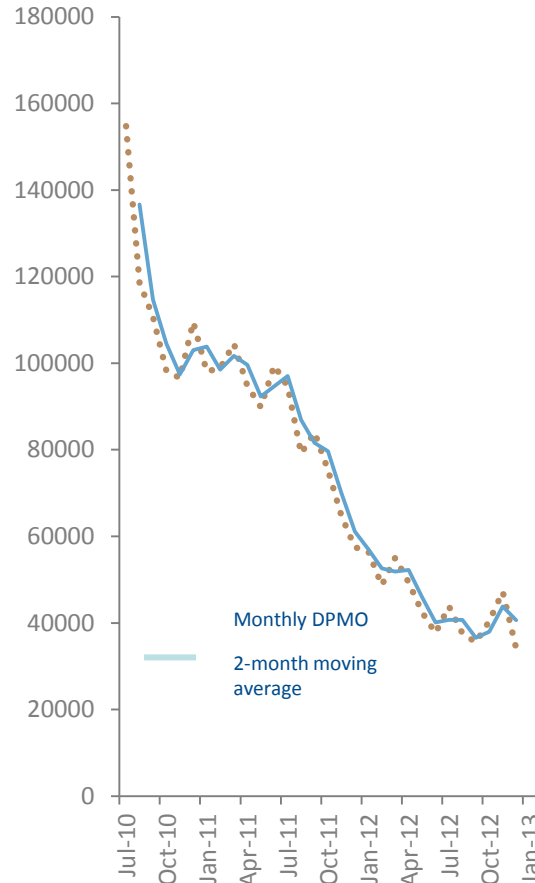
# Continuous measurement of service performance

## Member perception increasing (out of 10)

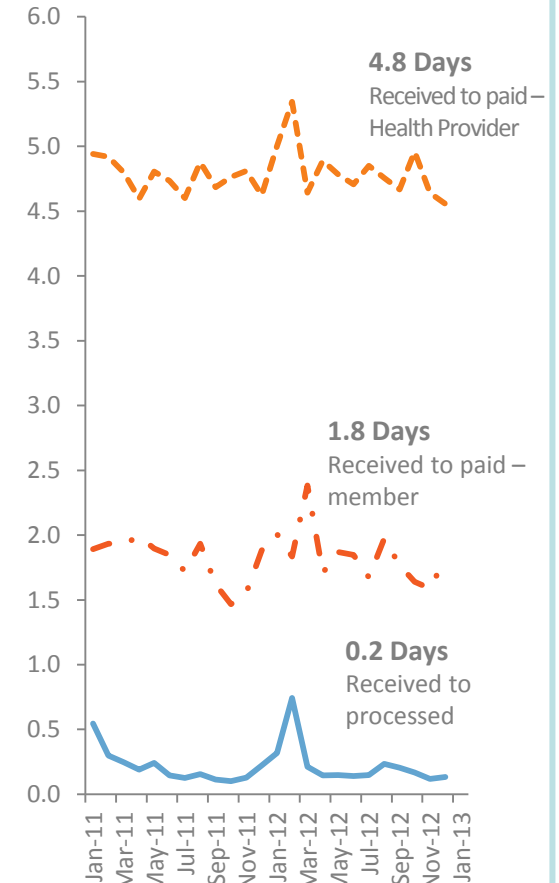


\*Averages used for yearly figures

## Quality improving (DPMO decreasing)



## Claims efficiency



30% of service centre agents' remuneration is based on a single service measure – used to drive outstanding customer service



# Key performance metrics

## 1 Continued, sustainable growth

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- Withdrawals
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## 2 Financial strength and sustainability

- Member reserves
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## 3 Managing the cost of care

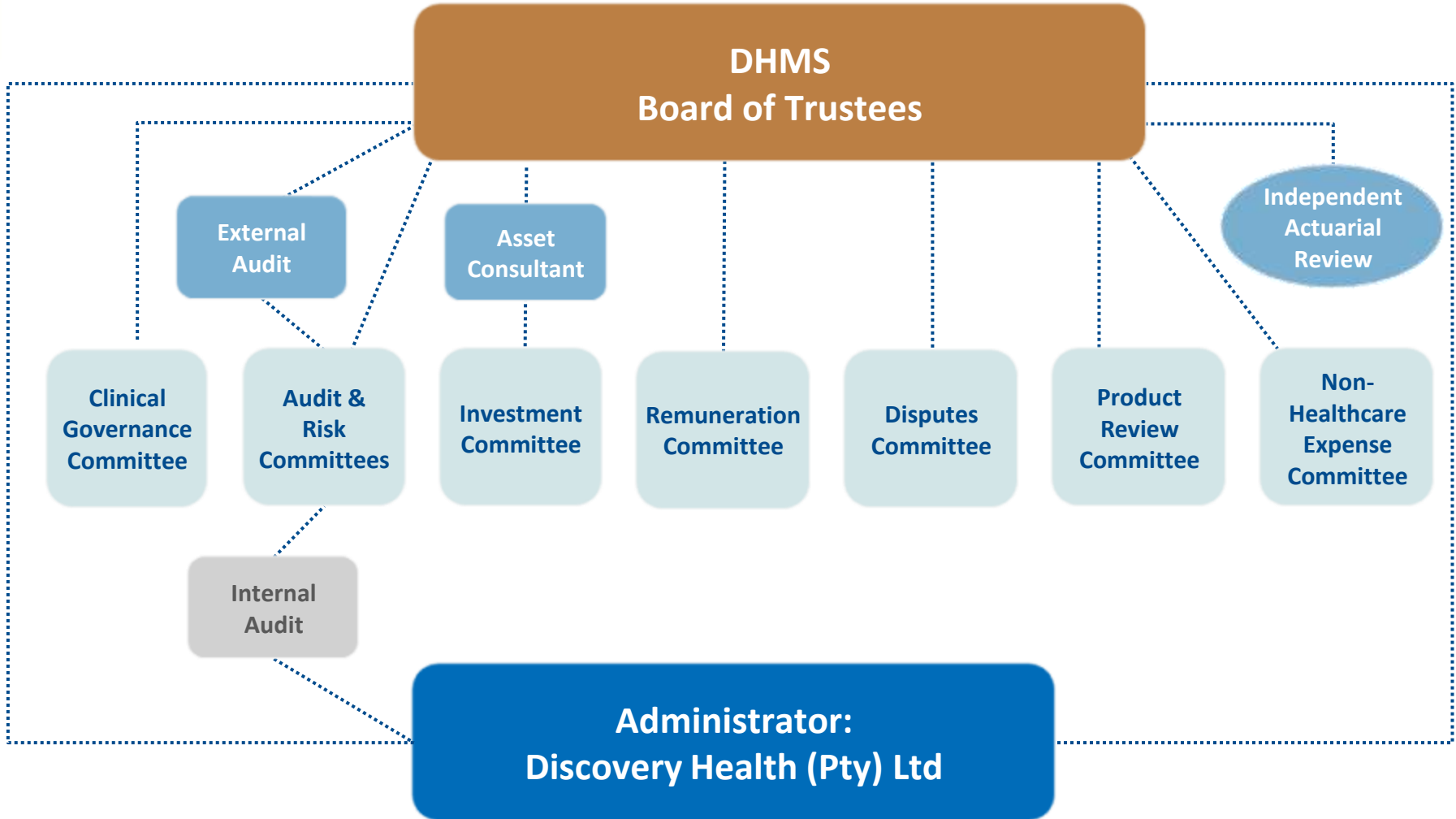
- Contribution competitiveness and increases
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- Governance structure
- Governance practice



# Discovery Health Medical Scheme Board of Trustees

**Adv**

**Michael van der Nest**



Chairperson of BOT &  
Remuneration Committee  
BA (Law) LLB (Stellenbosch)  
Occupation: Senior Counsel

**Adv**

**Noel Graves**



Trustee  
BA LLB (UCT)  
Occupation: Senior Counsel

**Dr**

**Nozipho Sangweni**



Deputy Chairperson of BOT,  
Chairperson of Clinical  
Governance Committee  
MBChB (Natal), DOH (Wits), DCAM  
(IATA), Occupation: SAA CMO

**Giles Waugh**



Trustee  
FIA, FASSA  
Occupation: Actuary

**Puke Maserumule**



Trustee, Chairperson of Investment  
Committee  
BA (Law) LLB (UCT),  
Post-graduate Diploma in Labour Law (UJ)  
Occupation: Founder and chairperson,  
Maserumule Incorporated Lawyers

**Prof**

**Zephne van der Spuy**



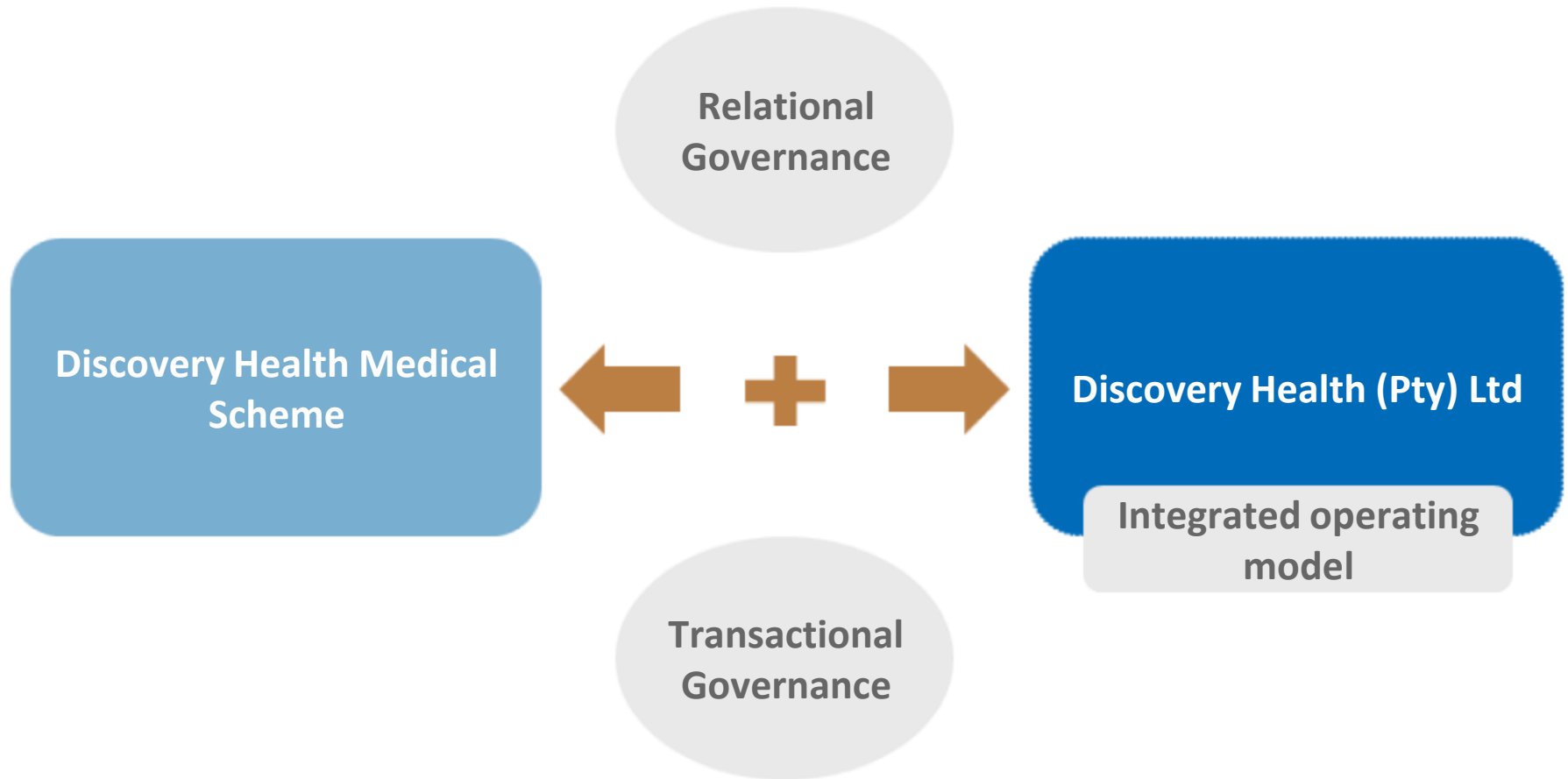
Trustee  
MBChB (Stellenbosch), MRCOG, FRCOG  
(Royal College of Obstetricians and  
Gynaecologists), PhD (University of London),  
FCOG (SA) (SA College of Obstetricians and  
Gynaecologists) Occupation: Emeritus  
Professor of Obstetrics and Gynaecology, UCT

**Barry Stott**



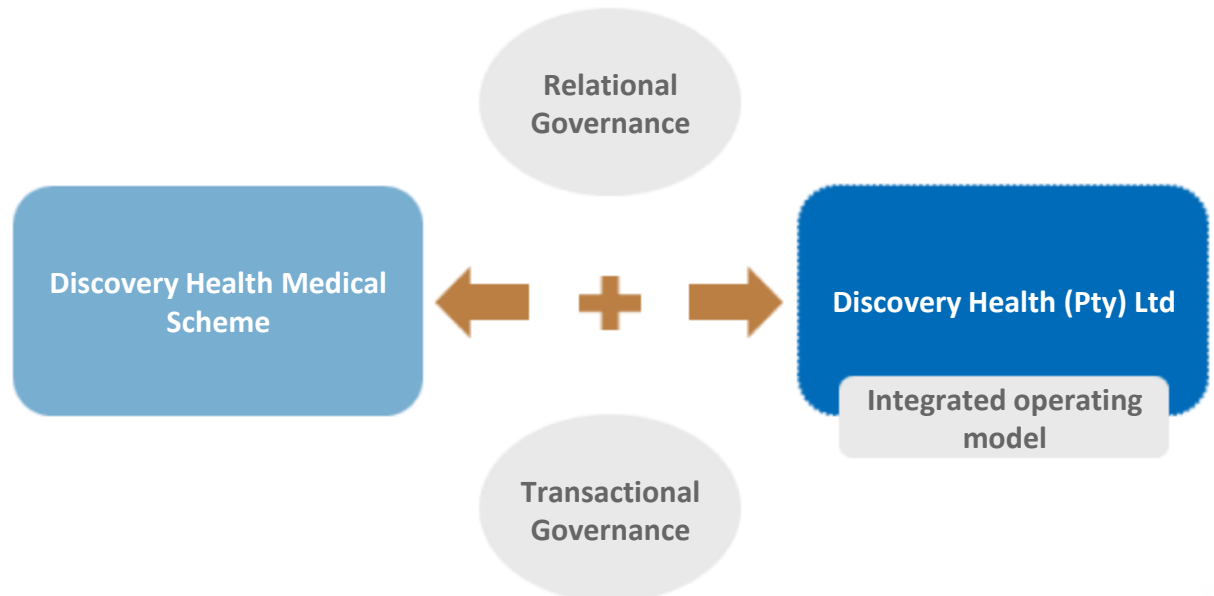
Trustee  
CTA (Wits), CA (SA), Occupation: Non-  
executive company director, retired  
partner, PwC Inc, responsible for financial  
services

# Best practice governance in outsourcing business models



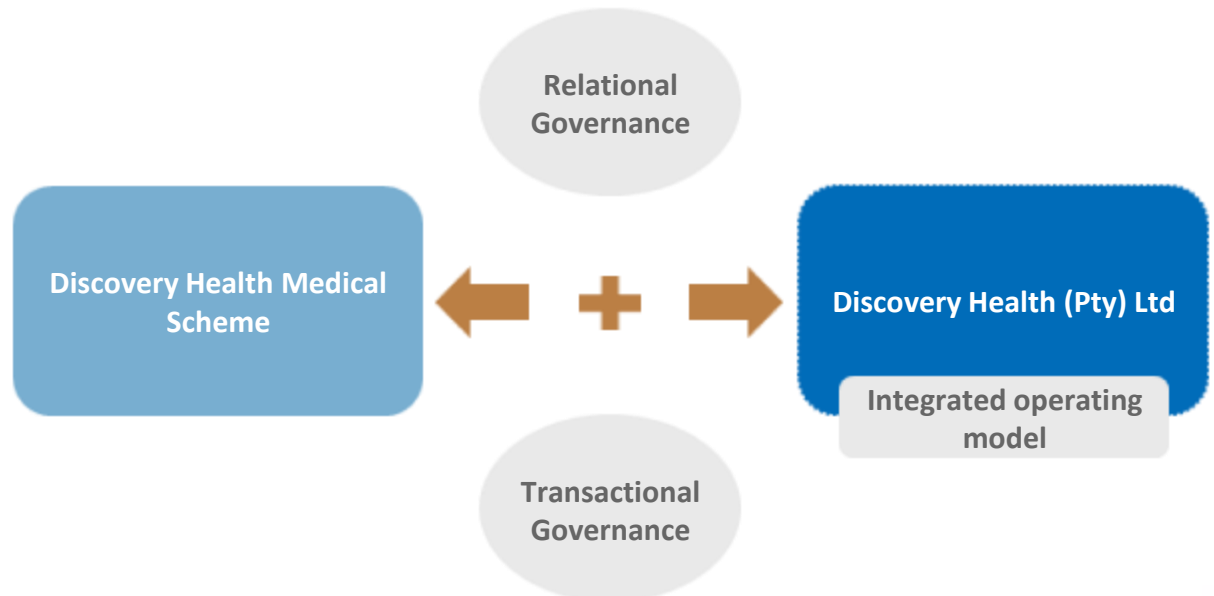
## Governance model subscribes to best practice

- Complies with Medical Schemes Act
- Complies with DMHS rules
- Complies with King III Code on Corporate Governance



## Governance model subject to periodic independent review






- Latest review commenced in November 2011
- Also requested by AGM motion in June 2012
- Deloitte performed independent review
  - 9 months
  - 20+ local and global experts
  - 5 100 professional hours





# DELOITTE PRESENTATION

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## Relational Governance




-  DHMS fully compliant with the Act
-  DHMS led by competent and independent Board
-  Power of balance maintained by Trustees
-  Scheme office is experienced and highly competent
-  Information provided by DH is detailed and of high quality

-  Assurance model to be improved
-  Stakeholder engagement model to be enhanced
-  Oversight capacity of Scheme office to be enhanced
-  Continuously align contracts and SLA with DH

 None



## Transactional Governance

-  DHMS does receive value-for-money from DH
-  Members benefit from scale, skills and experience of DH
-  Fees paid to DH not a significant outlier to peers
-  DHMS does benefit from economies of scale
-  DHMS outperforms all peers in Deloitte Performance Model

-  Continued evaluation of benefits of economies of scale
-  Continued evaluation of non-healthcare expenses
-  Continued evaluation of value-for-money outcomes

 None

## Operating Model

-  Integrated outsourcing model incurs on average 15% lower NHE than fragmented model
-  Integrated outsourcing model results in better scheme performance than fragmented model

 Maintain integrated operating model

 None

**Legend:**



Positive



Recommendation













Failure



# Outsourcing managed in line with Act and Rules

## Relational Governance

-  DHMS fully compliant with the Act
-  DHMS led by competent and independent Board
-  Power of balance maintained by Trustees
-  Scheme office is experienced and highly competent
-  Information provided by DH is detailed and of high quality
-  Assurance model to be improved
-  Stakeholder engagement model to be enhanced
-  Oversight capacity of Scheme office to be enhanced
-  Continuously align contracts and SLA with DH
-  None

DHMS action	Date
<b>Improve assurance model</b>	
Dedicated compliance manager	Assigned 2012
Dedicated risk manager	Assigned 2012
Revised risk management process	Implemented 2013
Independent audit of risk management	Scheduled 2013
<b>Enhance stakeholder engagement</b>	
Enhance framework and strategy	In progress
Independent communications consultant	Appointed 2013
Enhanced marketing reporting	Implemented 2013
<b>Enhance oversight capacity of Scheme office</b>	
Succession planning	In progress
Assessment of needs	Completed 2012
Appointment of Chief Financial Officer	Appointed 2012
Appointment of Chief Risk Officer	Under consideration
Appointment of Chief Stakeholder Relations Officer	Under consideration
<b>Administration and Managed Care contracts</b>	
Align with best practice	In progress
Align service level agreements	In progress

Legend:



Positive



Recommendation











Failure

# Outsourcing delivers value to DHMS



## Transactional Governance




-  DHMS does receive value-for-money from DH
-  Members benefit from scale, skills and experience of DH
-  Fees paid to DH not a significant outlier to peers
-  DHMS does benefit from economies of scale
-  DHMS outperforms all peers in Deloitte Performance Model

-  Continued evaluation of benefits of economies of scale
-  Continued evaluation of non-healthcare expenses
-  Continued evaluation of value-for-money outcomes

 None

DHMS action	Date
Evaluation of economies of scale	Ongoing ; Annual
Evaluation of non-healthcare expenses	Ongoing ; Annual
Evaluation of value-for-money model	Ongoing ; Annual

Note: Formal review of all categories commenced 2011

**Legend:**  Positive  Recommendation  Failure

# Integrated operating model delivers best value

## Operating Model

- ✓ Integrated outsourcing model incurs on average 15% lower NHE than fragmented model
- ✓ Integrated outsourcing model results in better scheme performance than fragmented model

○ Maintain integrated operating model

### DHMS action

### Date

Continue to enhance operating model through collaboration with DH

Ongoing

Continue to align with outsourcing best practice

Ongoing

Maintain balance of power through governance best practice

Ongoing

✗ None

Legend:



Positive

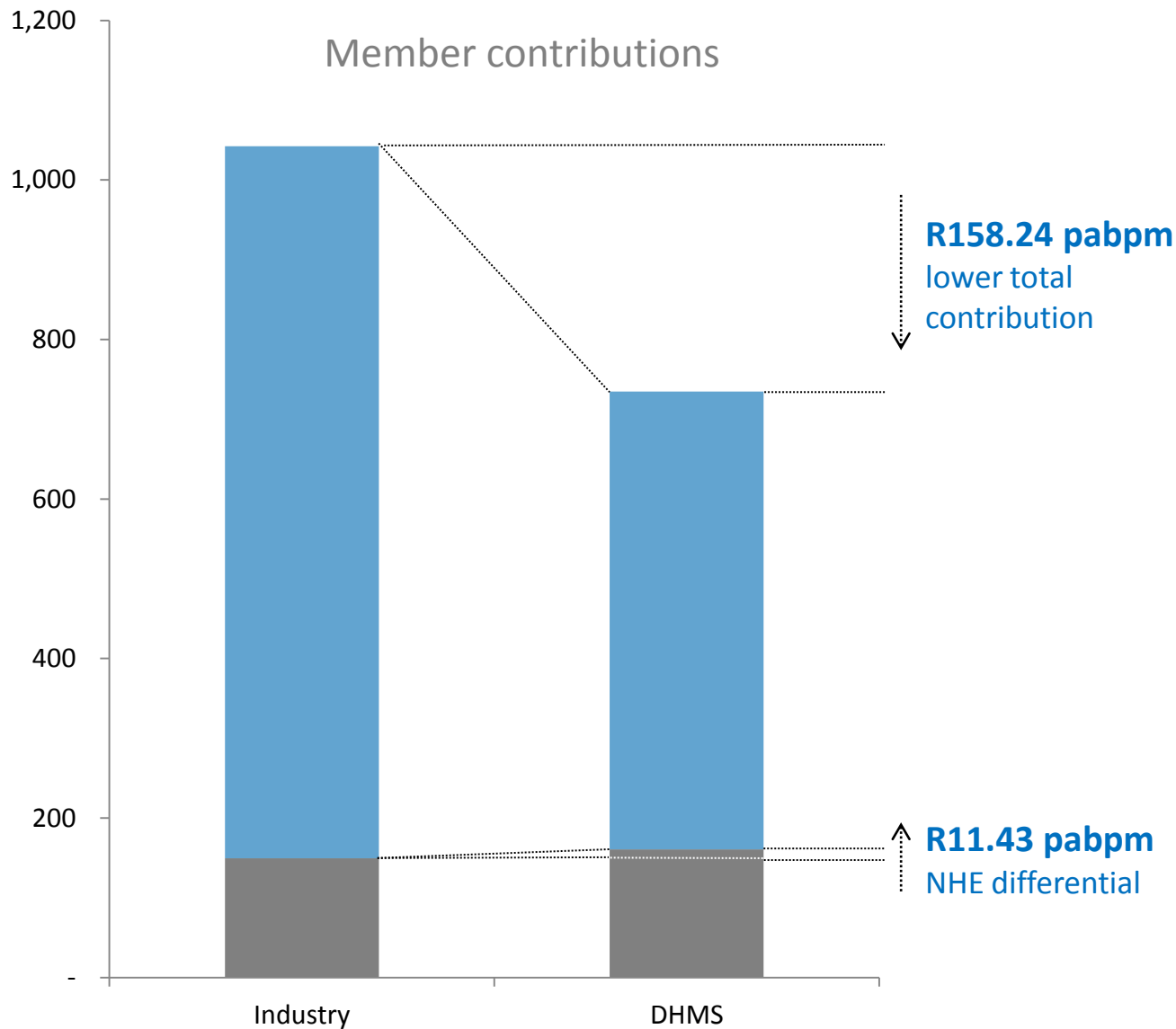


Recommendation



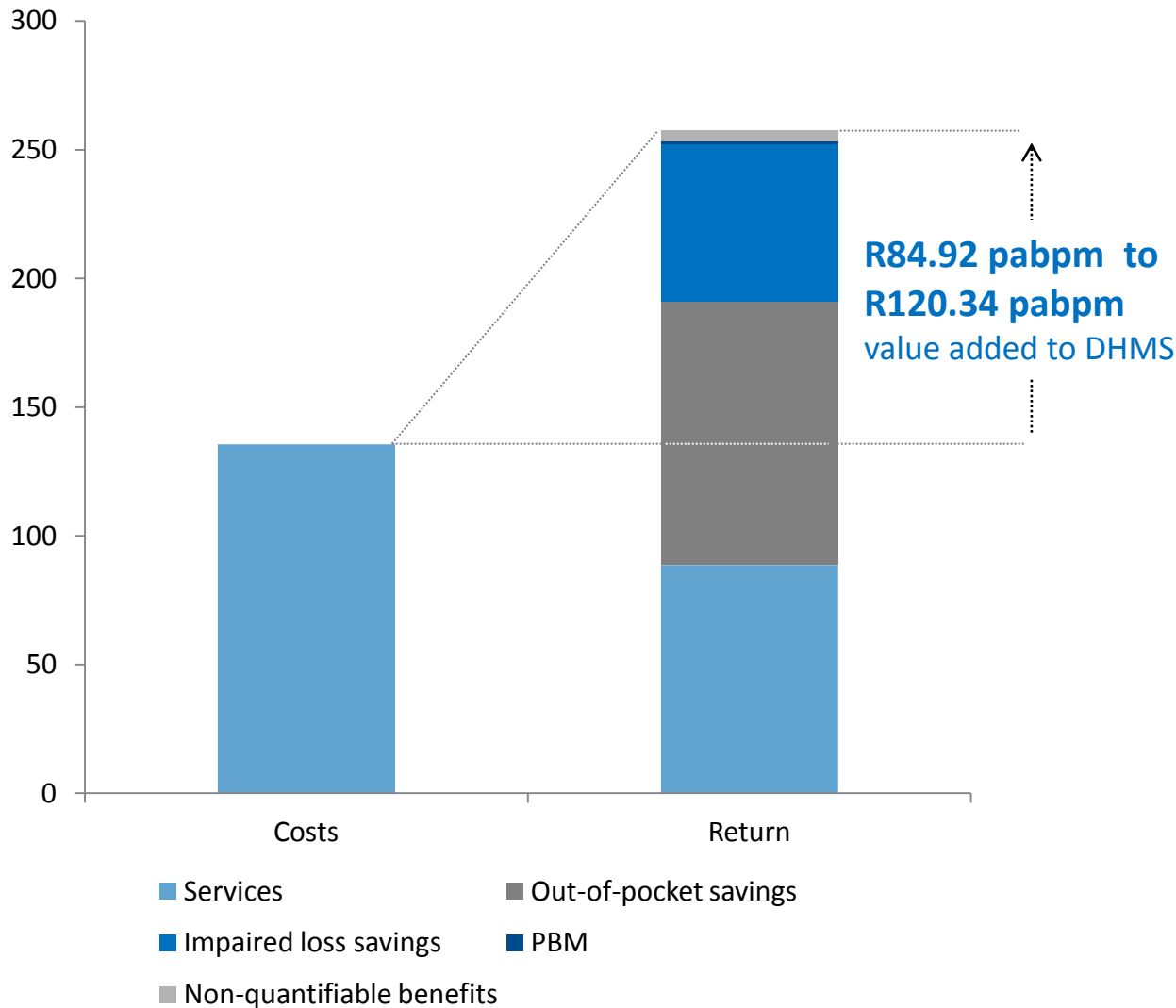
Failure

# Discovery Health enhances value proposition for members



**R11 higher investment** in administration and managed care fees results in **R158 lower cost** of contributions for members

# Evaluation of return on investment from Discovery Health services

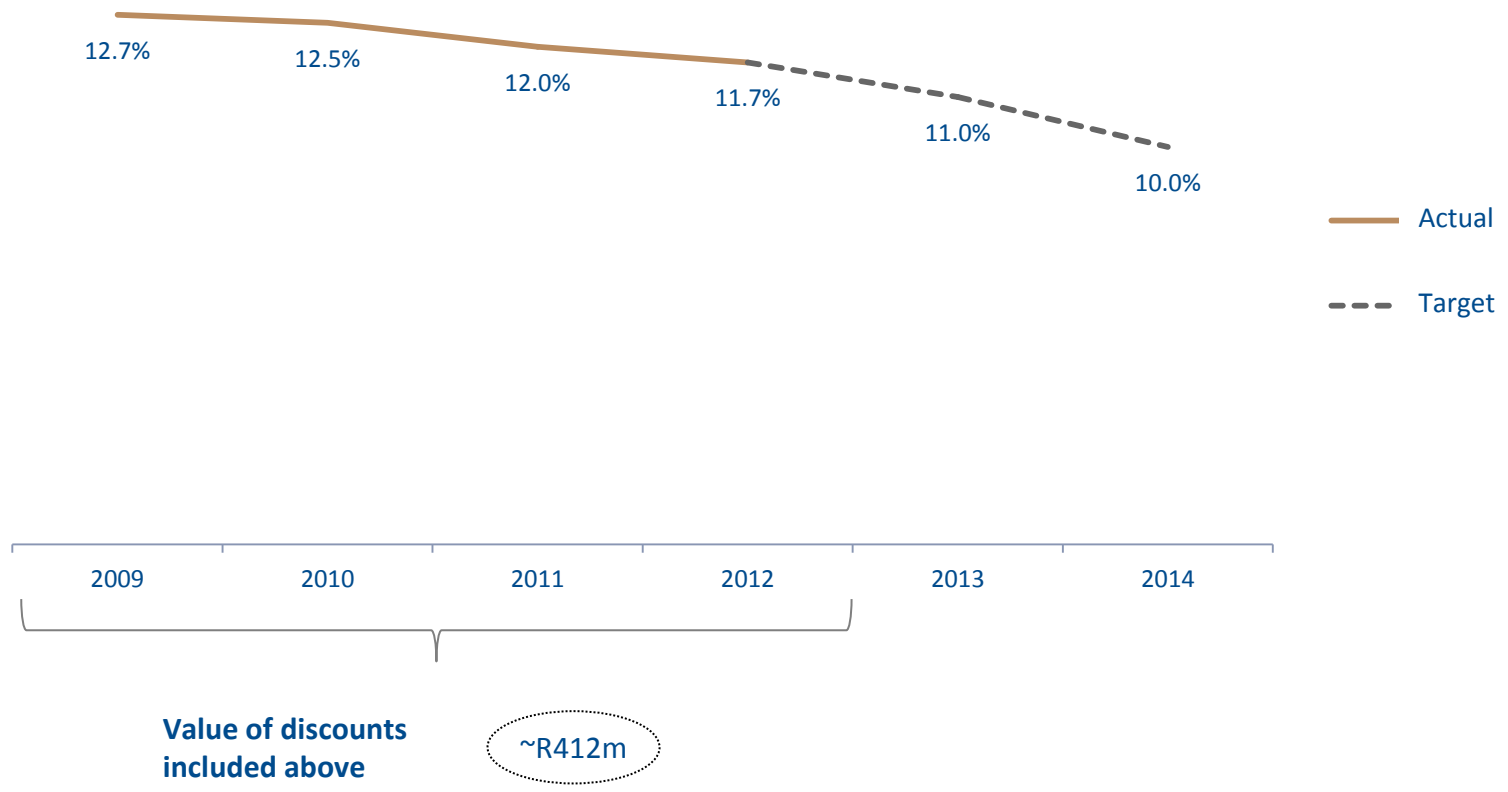


**Every R1 spent**  
on administration  
and managed  
care **generates a**  
**return of**  
between **R1.77**  
**and R2.02** for  
DHMS and its  
members

# DHMS has an admin and managed healthcare fee target of 10% of total annual GCI to be reached by the end of 2014



## Total admin. and managed care fees as % of GCI



## 1 Continued, sustainable growth

- Net growth in lives covered: 5%
- Age profile of new lives significantly better than the existing base

## 2 Financial strength and sustainability

**AA+**      **R 8.2bn**  
Credit rating      Member reserves

## 3 Managing the cost of care

- Significant average premium differential
- Contribution increases consistently below market average
- Comprehensive benefit coverage

## 4 Operating and service performance

- Consistent improvement in client perception and service

## 5 Governance

- Best of breed governance structures
- Governance review – 2012
- Continuous reduction in NHE