

Highlights of the Discovery Health Medical Scheme's financial results for 2008



The 15th annual general meeting of the members of the Discovery Health Medical Scheme will be held soon.

Here are the details if you would like to attend:

Date: 14 May 2009

Time: 10:00

Venue: Auditorium, 155 West Street, Sandton

This invitation serves as the official notice of the event.

Please notify the Principal Officer of any motions

The rules of the Discovery Health Medical Scheme require attendees to notify the Principal Officer of any motions for discussion at least seven days before the date of the meeting. Email these to principalofficer@discovery.co.za or post it to PO Box 786722, Sandton, 2146.

Agenda for the meeting

1. Welcome and quorum
2. Confirmation of the minutes of the 2007 annual general meeting
3. Tabling of the annual financial statements
4. Acceptance of the annual financial statements
5. Governance
 - 5.1 Board sub-committee's composition
 - 5.2 Appointment of auditors
6. General

The 2008 Audited Annual Financial Statements, the Trustees' report and 2007 minutes will be available on our website www.discovery.co.za from 17 April 2009 as well as at the following walk-in centres after 23 April 2009:

Johannesburg

Discovery Health
16 Fredman Drive
Sandton

Pretoria

Discovery Health Building
Corner of Oak and Tegel Avenues
Highveld Techno Park
Centurion

Cape Town

Discovery Health Building
Century City Boulevard
Century City
Milnerton

Durban

2 Frosterly Park
Armstrong Avenue
La Lucia Ridge

The Discovery Health Medical Scheme exceeds 25% statutory solvency level

	2008	2007
Members' funds	R5,3 billion	R4,3 billion
Solvency ratio	25.39%	23.00%
Membership (lives)	1,95 million	1,91 million
Average net contributions per member per month	R1,629	R1,499
Average net claims per member per month	R1,276	R1,134
Average accumulated funds per member at year end	R6,207	R5,201

Highlights from the past year

The Scheme experienced another year of excellent overall performance generating a surplus just short of R1 billion and its statutory solvency level reaching 25.39% for the year ended 31 December 2008. The Scheme continued to exhibit strong growth in 2008 with membership growing from 1.9 million lives to almost 2 million lives over the course of the year. Importantly, while the Scheme grew by 8.6% through new members joining, the rate of members leaving the Scheme was only 4.9%.

On average the Scheme processed 130 000 claims a day equating to over 2.7 million claims a month with an error rate of only 0.33% and the claims being paid within 4.12 days from date received.

The year ahead

The Scheme's average contribution increase in 2009 is 12.4%. The Scheme continues to deliver on its promise of sustainable, quality healthcare to its members. The exceptional financial performance is a result of continued development in risk management initiatives, its effective use of scale and the impact of making members healthier. The positive operating result positions the Scheme well to contain contribution increases in order to enhance the value that members receive for their contributions.

To achieve this target and maintain the contribution increases within the relevant guideline, the Scheme will continue to develop and implement various alternative reimbursement models with its service providers.

The Scheme's core purpose of making people healthier and enhancing and protecting their lives, remains the guiding principle. One of the ways that the Scheme achieves this is through its collaboration with Discovery Vitality using the Vitality HealthyFood™ benefit. This benefit aims to assist members in leading a healthy lifestyle and making healthy food choices by helping them to identify which healthy foods to buy. In addition, the Scheme benefits from the general incentive introduced by Discovery Vitality to make members healthier.

The Scheme continues to provide healthcare access to low income earners through the KeyCare plans. KeyCare is the flagship low-income plan in South Africa today and has been growing faster than most other medical schemes in South Africa. Many employed, but uninsured South Africans want medical scheme membership and have a source of funding, but the current lowest-cost plans in the market are still too expensive.

In response to this need, the Scheme has significantly reduced contributions for members earning below R5 500 a month. This offering is not at the expense of benefits on these plans; in fact KeyCare members will enjoy improved benefits in 2009, with enhancements to the Specialist, Antenatal and Mobility Devices benefits.

Extracts from the Annual Financial Statements

BALANCE SHEET

as at 31 December 2008

	2008 R'000	2007 R'000
Assets		
<i>Non-current assets</i>	97,162	146,631
Financial assets at fair value through profit or loss	97,162	146,631
<i>Current assets</i>	7,579,657	6,352,448
Financial assets at fair value through profit or loss	5,672,933	4,596,452
Trade and other receivables	815,293	793,921
Cash and cash equivalents	1,091,431	962,075
Total assets	7,676,819	6,499,079
Funds and Liabilities		
<i>Members' funds</i>	5,279,848	4,276,376
Accumulated funds	5,279,848	4,276,376
<i>Non-current liabilities</i>	-	835
Members' trust funds	-	835
<i>Current liabilities</i>	2,396,971	2,221,868
Outstanding claims provision	510,436	479,064
Derivative financial instruments	8,355	-
Members' savings accounts	1,430,744	1,291,449
Trade and other payables	446,488	451,033
Members' trust funds	948	322
Total funds and liabilities	7,676,819	6,499,079

Extracts from the Annual Financial Statements

INCOME STATEMENT

for the year ended 31 December 2008

	2008 R'000	2007 R'000
Net contribution income	16,630,726	14,794,420
Net claims incurred	(13,021,903)	(11,188,524)
Claims incurred	(13,050,428)	(11,210,949)
Third party claim recoveries	28,525	22,425
Net income on risk transfer arrangements	16,656	23,830
Risk transfer arrangement fees	(86,532)	(157,033)
Recoveries from risk transfer arrangements	103,188	180,863
Relevant healthcare expenditure	(13,005,247)	(11,164,694)
Gross healthcare result	3,625,479	3,629,726
Managed care: management services	(505,087)	(457,930)
Broker service fees	(503,385)	(438,077)
Expenses for administration	(2,185,943)	(1,964,784)
Other operating expenses	(137,983)	(125,990)
Net healthcare result	293,081	642,945
Investment income	758,029	470,837
Net fair value (losses) / gains on financial assets at fair value through profit or loss	(20,933)	41,815
Sundry income	10,184	22,308
Other income	747,280	534,960
Expenses for asset management services rendered	(6,502)	(7,823)
Interest paid	(36,365)	(24,432)
Other expenditure	(42,867)	(32,255)
Net surplus for the year	997,494	1,145,650

STATEMENT OF CHANGES IN MEMBERS' FUNDS

for the year ended 31 December 2008

	2008 R'000	2007 R'000
	Accumulated funds	Accumulated funds
Balance at beginning of the year	4,276,376	3,130,726
Net surplus for the year	997,494	1,145,650
Reserves transferred from other medical schemes	5,978	-
Balance at end of the year	5,279,848	4,276,376

CASH FLOW STATEMENT

for the year ended 31 December 2008

	Note	2008 R'000	2007 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	1	383,760	623,896
Working capital changes			
Increase in trade and other receivables		(69,169)	(148,939)
Increase in members' savings accounts		139,295	69,197
(Decrease) / increase in trade and other payables		(4,544)	6,200
Cash generated by operations		449,342	550,354
Purchases of financial assets		(1,198,500)	(1,398,479)
Proceeds from sale of financial assets		150,555	809,669
Interest received		751,564	462,476
Dividend income		6,991	10,011
Interest paid		(36,365)	(24,432)
Net cash flows from operating activities		123,587	409,599
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments out of members' trust funds		(209)	(298)
Reserves transferred from other medical schemes		5,978	-
Net cash flows from financing activities		5,769	(298)
NET INCREASE IN CASH AND CASH EQUIVALENTS		129,356	409,301
Cash and cash equivalents at beginning of year		962,075	552,774
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,091,431	962,075

NOTE TO THE CASH FLOW STATEMENT for the year ended 31 December 2008

	2008 R'000	2007 R'000
CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Net surplus for the year	997,494	1,145,650
Adjustments for:		
Increase / (decrease) in outstanding claims provision	31,371	(65,832)
Impairment losses	47,797	33,948
Interest received	(751,564)	(462,476)
Dividend income	(6,991)	(10,011)
Interest paid	36,365	24,432
Net fair value losses / (gains) on financial assets at fair value through profit or loss	20,933	(41,815)
Net fair losses on derivative financial instruments	8,355	-
	383,760	623,896

Matters of non-compliance with the Medical Schemes Act, 131 of 1998, as amended, for the year ended 31 December 2008

Statutory scheme solvency

In terms of Regulation 29 (2) to the Medical Schemes Act, 131 of 1998, as amended, the Scheme must maintain accumulated funds expressed as a percentage of gross annual contributions for the accounting period under review which may be no less than 25%.

During the year under review, the Scheme's accumulated funds expressed as a percentage of gross annual contributions, was in some months less than the statutory requirement of 25%. In line with the agreement reached with the Council for Medical Schemes during 2007 whereby the Scheme would build its reserves to reach 25% by 31 December 2008, the Scheme's statutory solvency margin was 25.39% as at 31 December 2008.

The build up of the solvency margin compared to the 2007 agreement is reflected in the following table:

	Solvency margin required per 2007 agreement	Solvency margin achieved
30 June 2007	21.00%	21.14%
31 December 2007	23.00%	23.00%
31 December 2008	25.00%	25.39%

Sustainability of benefit options

Section 33 (2) of the Medical Schemes Act, 131 of 1998, as amended, stipulates that each option shall be self-supporting in terms of membership and financial performance and be financially sound.

At 31 December 2008 the following options did not comply with Section 33 (2):

Option	Net underwriting deficit R'000	Net (deficit)/surplus R'000
Executive	(179,821)	(172,178)
Classic Comprehensive	(414,365)	(252,899)
Foundation Core	(326)	1,129

The Trustees continue to monitor the Executive and Classic Comprehensive options with a view to improving their sustainability. No new members are allowed to join the Foundation Core option as this option is being wound down.

Investments in employer groups

Section 35 (8)(a) of the Medical Schemes Act, 131 of 1998, as amended, states that a medical scheme shall not invest any of its assets in the business of an employer who participates or any administrator or any arrangement associated with a medical scheme. Due to the large number of the Scheme's employers being listed on the JSE, investments were made in certain of its employers listed on the JSE. The Council for Medical Schemes has granted the Scheme an exemption from this section of the Medical Schemes Act.

Broker fees paid before contributions are received

In terms of Regulation 28 (5) to the Medical Schemes Act, 131 of 1998, as amended, the Scheme broker fees shall be paid monthly and on receipt by the Scheme of the relevant monthly contribution. In some instances brokers were compensated prior to receipt of the relevant monthly contribution. The Scheme has implemented additional controls to address this matter and the resulting instances where this requirement was contravened represents less than 0.5% of the total broker fees paid per month.

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