

# Challenges and opportunities

The past year's operating environment remained challenging with continued economic fluctuations that impact consumer confidence negatively. Within this environment, we have clear strategies to manage our risks and material issues, as well as to capitalise on opportunities, and to set deliverables and requirements that ensure we deliver on

our short-, medium- and long-term objectives and targets.

We highlight some of the key risks for the business here and our strategies to mitigate these risks.



Read more about our risk strategy in the governance review from **page 117** or visit our website for detailed information in our full governance report.

01

**Macro-economic pressure and the slow pace of economic growth, with the resultant negative impact on consumers.**

As a Group, we are diversified by industry and geography and offer products that are matched to key economic variables such as increases linked to the consumer price index.

The Group offers best-in-class insurance products and services that meet clients' needs. Vitality provides clients with additional value through health and lifestyle benefits and product integration, which contribute to lower lapse levels for the Group. Through innovation and the design of products and services that improve our client experience, Discovery is able to retain and grow its client base.

02

**Our home market of South Africa is currently facing economic pressures and political uncertainty, with an enhanced focus on the perceived slow pace of transformation. The Financial Sector Charter that guides transformation requirements is currently undergoing amendments.**

Employees play a critical role in enabling the Group to achieve its business objectives. In South Africa in particular, there is a clear imperative to achieve an inclusive and transformed workforce that equitably represents all sectors of society. Recruiting and retaining black South Africans in senior positions remain a key priority. Discovery competes with other businesses in South Africa for a limited pool of talent and we, therefore, set a target of 25% representation by employment equity candidates in each of the business unit executive committees.



Read more about our progress towards this target in our Sustainable Development Report on **page 62**.

**Some of the many initiatives undertaken to support transformation in Discovery's workforce include:**

- Sourcing black talent through the Discovery network of employees
- Identifying and developing talented black employees
- Encouraging equity employees to develop skills classified as scarce and critical
- Providing bursaries for the children and families of long-serving equity employees who wish to acquire scarce and critical skills.

### 03

**National Health Insurance and the role of the private healthcare system, as well as the sustainability of the overall healthcare system.**

Medical schemes have an important role to play and can continue to operate alongside the National Health Insurance (NHI) system. An efficient interface between the NHI and the private healthcare system should be a key outcome for South Africa. Discovery is working closely with the National Department of Health and other stakeholders to ensure that the final NHI policy is optimal and that it leverages the assets of the entire national healthcare system, including the private healthcare sector.

By addressing the increasing costs of healthcare holistically and adopting an approach that combines Vitality engagement with an integrated healthcare system offering, Discovery Health Medical Scheme can offer substantially lower-cost healthcare contributions than the rest of the market.



Read the Discovery Health Business Review on **page 42**.

### 04

**In the international market, our UK business has been affected by the UK's exit from the European Union, which has resulted in low interest rates and currency fluctuations.**

The economic uncertainty surrounding the UK's exit from the European Union has had a number of implications for VitalityLife and VitalityHealth. The most significant issue has been low interest rates, which have negatively impacted profitability. The business is closely tracking the effects of the interest rate, which has increased slightly. Against these conditions, the business focussed on developing products that are priced effectively to respond to market conditions. This shows the resilience of the business in a challenging economic environment.

### 05

**Ensuring continued growth remains a key focus. Shared-Value Insurance and our Ambition 2018 continue to drive our business operations. Further growth areas include developing our international business and expansion into additional countries by increasing our partnerships and relevant partner networks.**

In the coming year, the development of our banking offering will remain a key priority.

We will also continue to invest in technology to improve healthcare, enhance client experience and ensure our products remain aligned to the changing macro-environment and consumer needs.

Having developed solutions and a business model that respond to societal issues, we remain focussed on developing ways to measure the true impact of the Vitality model on consumer behaviour. We have industry trend analyses and big data analytics, which allow us to stay ahead of market changes and to respond to these in a proactive

manner. The introduction of Vitality Active Rewards has also further sharpened our focus on data integrity and client service. These are two critical issues for the business, given the personalised nature of our programmes and the data on which they rely. We use data on clients' health, wellness and driving patterns to assess and dynamically underwrite client risk – an aspect that contributes to the sustainability of the business as healthier, engaged clients stay with Discovery for longer.

The prevalence of non-communicable diseases (NCDs) in the developed world guides our selection of insurance partners. These partners have scale in their markets and have established businesses and product life-cycles. We evaluate the product fit and the impact our model will have over time. We have seen positive traction of our Shared-Value Insurance model in these markets. These partnerships enable us to increase the effectiveness and scale of our model. We now operate in 16 markets around the world.



Read more about our global expansion on **page 82** in the review of Vitality Group.