

Discovery Health



WHO WE ARE

Discovery Health is the leading administrator and managed care provider for medical schemes in South Africa, providing services to 3.4 million members. The business has a market share of over 40% of the overall medical scheme market in South Africa and manages 18 closed medical schemes on behalf of corporate clients, as well as Discovery Health Medical Scheme – the largest open medical scheme, with a market share of 55%.

Our vision is to deliver an integrated value-driven healthcare system that is centred on meeting members' needs and delivering access to the best-quality care at outstanding value for each of our stakeholders and our client medical schemes. We achieve this vision through a pioneering shared-value healthcare model. The model incentivises people to be healthier. It generates lower claims and higher surplus for our client schemes, and incentivises healthcare professionals through value-based contracting, leading to a healthier society and more clients selecting Discovery Health.

Since our inception in 1992, Discovery Health has led the way in innovation and positive change in healthcare for the benefit of the entire industry and country. Our services go well beyond traditional administration and managed care services and include ongoing substantial investment in digital innovation, and a significant focus on improving value in healthcare through a focus on both efficiency and quality of care to ensure better health outcomes for our clients.

Performance highlights: Discovery Health

WE CONTINUED TO DELIVER EXCELLENT RESULTS DURING THE YEAR.

Normalised operating profit increased by 11% to R2 505 million, and core new business annualised premium income increased by 18% to R6 109 million.

Based on the success of our effective business model and value proposition, we have been awarded 10 out of 12 tenders for the management of restricted-membership medical schemes over the past five years.

During the year, Discovery Health was awarded the contracts to administer SAB Medical Aid Scheme, Netcare Medical Scheme, and Glencore Medical Scheme. This brings our client base to 18 restricted medical schemes, which is more than any other medical scheme administrator in South Africa. It represents approximately 635 000 restricted medical scheme members.

In 2016, Discovery Health Medical Scheme achieved strong membership growth, with new members increasing by 43 000 to 2.76 million members.

NORMALISED OPERATING PROFIT
Δ 11%
TO R2 505 MILLION

CORE NEW BUSINESS ANNUALISED PREMIUM INCOME
Δ 18%
TO R6 109 MILLION

DISCOVERY HEALTH MEDICAL SCHEME (DHMS)

South Africa's largest open medical scheme

Discovery Health Medical Scheme, which is administered by Discovery Health, addresses the increasing costs of healthcare holistically and adopts an approach that combines health improvement with an integrated healthcare system.

NET MEMBERSHIP
Δ 1.6%
TO A MEMBERSHIP BASE OF 2.74 MILLION LIVES AT YEAR END

SOLVENCY RATIO
26.3%
WITH R14.2 BILLION IN MEMBER RESERVES

OPEN MEDICAL SCHEME MARKET SHARE
55%

* Discovery Health Medical Scheme data is reported for the calendar year 1 January 2016 to 31 December 2016.

A day at Discovery Health**

Discovery Health employs 4 080 people and deploys world-class actuarial, analytic and clinical capabilities at every point in the services offered to client medical schemes and their members.

** 258 working days.

PERFORMANCE HIGHLIGHTS*

NET SURPLUS FOR
THE YEAR

R1 305
million

CREDIT RATING

DHMS was reaccredited as the only open medical scheme in South Africa with an

AA+ rating

The highest possible rating, confirming financial strength and the ability to pay claims

POSITIVE NET
HEALTHCARE RESULT
R102 million

CONTRIBUTION INCREASES FOR 2017

was lower than the industry average at

10.2%

enabled by effective inflation and risk management interventions

SIGNIFICANT VALUE GENERATED

from administration and managed care fees.

For every R1 paid to Discovery Health, Discovery Health Medical Scheme members received

R1.93 in value

15.1% LOWER CONTRIBUTIONS

than the industry average for the next nine largest open medical schemes on a plan-for-plan basis (main member, one adult and one child)

ADMINISTRATION FEES

Based on information from the Council for Medical Schemes Annual Report (2015 – 2016), Discovery Health Medical Scheme was ranked the 5th lowest out of 23 open medical schemes for administration and managed care expenditure

On a daily basis Discovery Health:

Pays out
250 900 claims
to a value of
R142 million



Handles
36 600 calls



Authorises
2 900
hospital
admissions



Adds **1 350** new
beneficiaries,
including **117**
newborns



Material issues

This section outlines key issues and focus areas Discovery Health managed during the year.

01 ENABLING BETTER HEALTH THROUGH SCIENCE-BASED WELLNESS INTERVENTIONS

Vitality supports our efforts to help improve people's health. The use of Vitality within Discovery Health's healthcare model addresses modifiable health risk factors and enhances members' health by incentivising behaviour such as regular exercise, healthier nutrition and regular screening.

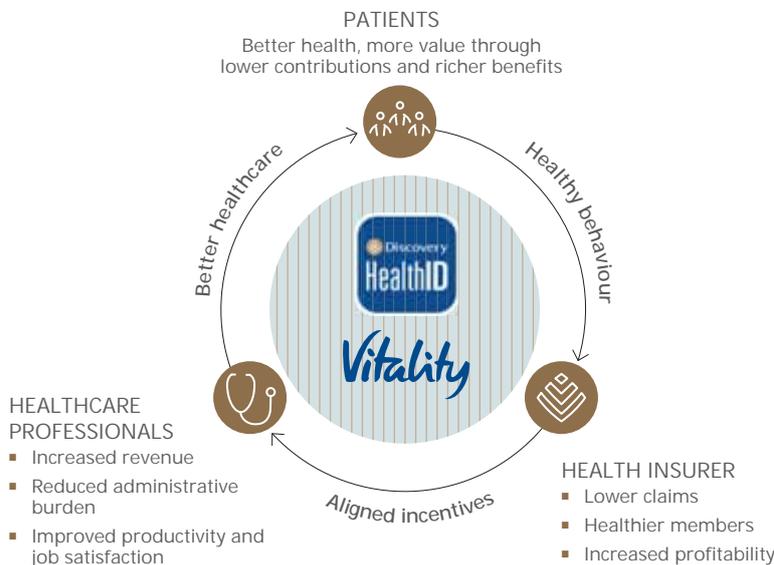
The impact of Vitality is significant, and increased engagement in Vitality over time leads to substantially improved health outcomes, lower risk claims and significant savings. Our analysis shows that Gold status members with heart disease have 41% lower risk claims than a member who has no Vitality membership. Similarly, members on Gold Vitality status living with diabetes or lung disease have 53% and 50% lower risk claims, respectively, than those with no Vitality membership.

As a result of Vitality, Discovery Health Medical Scheme has benefited through a R1.2 billion (2.8%) reduction in risk claims.

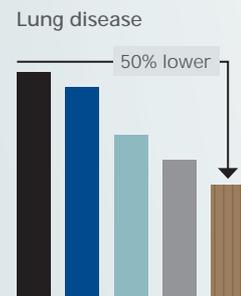
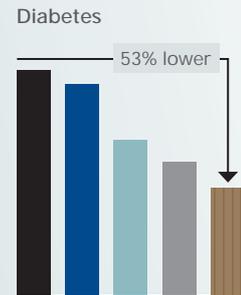
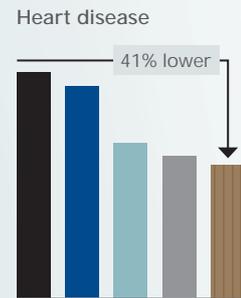
One of our strategies is to increase the membership of and engagement with Vitality. During the year more than 53% of members of Discovery Health Medical Scheme were on Vitality, and 43% were actively engaging in the programme, a steady increase as a result of the Vitality Active Rewards benefit. Read more about the significant increase in physical activity and engagement in Vitality Active Rewards in the Vitality and Vitality Group Business reviews.

The role of healthcare professionals in ensuring better health

Discovery Health's analysis also shows that healthcare professionals can play an important role in helping society as a whole to lead healthier lifestyles. Healthier doctors are more productive, deliver better quality care, are more likely to prescribe wellness interventions and promote healthier lifestyles, resulting in healthier patients. To further bolster the role of healthcare professionals in encouraging wellness, we introduced Vitality Active Rewards for Doctors, a benefit modelled on Vitality Active Rewards. Doctors are rewarded for taking care of their own health and their patients' health. Doctors can earn up to 100% off the amount paid for their wearable devices and their medical practice support tools. This benefit also incentivises them to do point-of-care screening for chronic conditions for their patients. With the use of wearable devices they can better track, monitor and encourage greater activity levels.



Vitality status is associated with improved health outcomes



■ No Vitality membership
■ Blue
■ Bronze
■ Silver
■ Gold and Diamond

02

BETTER HEALTHCARE THROUGH DEVELOPING WORLD-CLASS CLINICAL AND HEALTHCARE PROGRAMMES AND ASSETS

Discovery Health actively works to improve the quality of healthcare available to the members of our client medical schemes. By enabling a cohesive system in which healthcare professionals work in integrated teams, they are better able to share patient information to better coordinate care, and are paid using innovative alternatives to current fee-for-service models, such as value-based reimbursement models.

Discovery Health has developed disease management and care-coordination programmes to improve members' access to and quality of care, while also lowering the overall cost of healthcare. These include programmes for diabetes, renal failure, HIV and mental health, and care-coordination programmes aimed at patients with multiple conditions, such as the ElderCare programme.

EXAMPLES OF DISCOVERY HEALTH'S DISEASE MANAGEMENT AND CARE-COORDINATION PROGRAMMES

DiabetesCare

In response to one of the most prevalent diseases, Discovery Health developed *DiabetesCare* with the shared-value model embedded in the programme. *DiabetesCare*, together with a Premier Plus GP (a network family doctor who has contracted with us on quality-based metrics), helps patients to actively manage their condition. These doctors receive higher remuneration linked to the clinical outcomes of their patients. Patients are empowered and encouraged to manage their condition through access to personalised tracking tools in *Vitality*, as well as tips and advice to manage their condition, and can also access other related healthcare providers like dietitians and biokineticists. More than 22 000 medical scheme members have joined personal health programmes, and more than 1 200 healthcare professionals have enrolled in GP Premier Practice. Besides the high uptake, we have seen initial positive health outcomes.

Advanced Illness Benefit

Our data shows that the hospital costs of members during the last 12 months of life are four times more and increase up to 10 times more in their last month of life, typically due to intensive hospital care in the final weeks. Over 60% of these medical scheme members pass away in hospital, often in a high-care or an intensive-care unit, in line with the international norm. But research shows that more than 80% of people want to die at home. To address this, Discovery Health developed the Advanced Illness Benefit (AIB), which gives members with advanced stages of cancer access to a comprehensive palliative care programme, which includes *Discovery HomeCare* – a care solution provided by professionally trained Discovery nurses at home. With unlimited benefits, access to home-based care and a care coordinator, the service has had a significant impact on patients and their families, with over 70% of medical scheme members in this programme electing to spend their last weeks at home with their families.

Patient hospital experience surveys

Measuring quality of care has been demonstrated internationally to be effective in improving both quality and patient experience of care. In 2015, Discovery Health started an initiative to measure the patient experience of care provided by private hospitals. Since its publication on the website, the Patient Satisfaction Score (PaSS) has been viewed more than 36 500 times and the PaSS score has increased from 56% in 2013 to 59% in 2016 in response to sharing results with hospitals. We intend to extend these measures of hospital experience to include specific clinical outcomes such as mortality and infection rates, and to further extend the methodology to include visits with a GP.

All of these investments are aimed at creating an increasingly integrated, shared-value healthcare system that gives access to the highest quality healthcare at the lowest possible costs.

As part of the future focus on improving the quality of healthcare, we are planning on introducing centres of excellence for major joint replacements and in-hospital psychiatry. International evidence shows that clinical outcomes (mortality and readmission rates) are improved significantly where there is a higher volume of cases, due to the skills and experience healthcare teams develop.

03 LOWER COSTS OF HEALTHCARE THROUGH VALUE-BASED CONTRACTING AND INNOVATIVE SERVICES

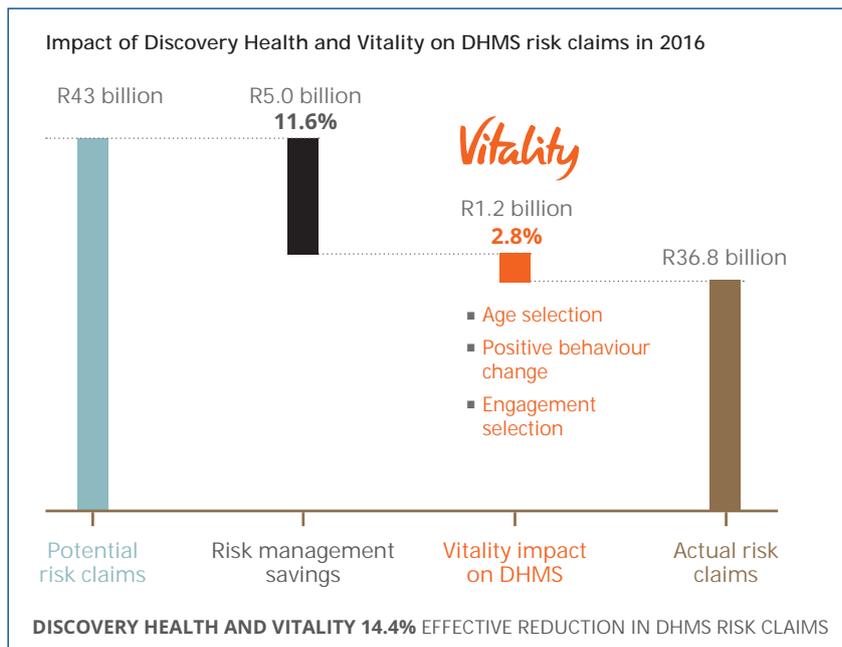
In providing access to quality, cost-effective healthcare, we work with healthcare providers and their professional societies. We have made significant progress in transitioning from traditional fee-for-service models towards value-based payment models that focus on improving quality of care and patient outcomes. Discovery Health has already developed and implemented several value-based contracts with doctors, and is engaging with the industry on identifying other means to reduce healthcare costs. In addition, Discovery Health continues to grow and maintain provider networks that are efficient, drive the adoption of cost-effective generic medicine, and that incorporate technology – measures that together help to counteract medical inflation without compromising access to and quality of healthcare.

Over the reporting period, rising inflation and increasing hospital claims remained challenges for the sector. Besides the economic indicators, from the first quarter of 2016 there were significant increases in the utilisation of healthcare services, especially in hospital admission rates emanating from several new private hospitals and increases in admission rates at certain established hospitals. In May 2016, Discovery Health Medical Scheme was projecting an operating loss of R600 million for the full year. In response, Discovery Health's risk management and utilisation interventions supported a turnaround of R700 million, which enabled the Scheme to end the year with a R102 million operating surplus, and a net surplus after investment income of R1 305 million.

As a result of Discovery Health's managed care processes and interventions, Discovery Health Medical Scheme realised a reduction in risk claims of R5 billion (11.6%) in 2016. This was achieved through tariff and alternative remuneration mechanism savings, medicine savings, benefit design and funding policy, forensics and billing rules, and surgical device management. These savings equated to a 254% return on investment in managed care fees. For every R1 the Scheme paid in managed healthcare fees, it received R2.54 in return. In combination with Vitality savings, there was a 14.4% reduction in risk claims costs.

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 healthcare contributions than the rest of the market. In 2017, the Scheme's contributions were 15% lower than the average for the next nine largest open medical schemes, on a plan-for-plan basis. This is an improvement on the 2016 figure of 14.6%.

These metrics will enable the continued offering of lower contribution increases than competitors in the future, as well as longer-term sustainability and market leadership.



Case study

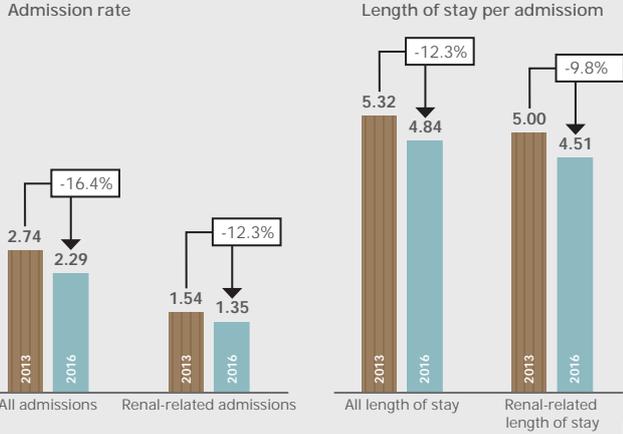
KIDNEYCARE PROGRAMME

Impact of the shared-value insurance model

Illustrating improved health outcomes and cost through value-based contracts.

Partnering with dialysis providers and specialists to measure and improve outcomes

The programme encourages coordinated participation and care between specialists, dialysis providers and patients. Specialists and dialysis providers report on the progress of each patient to improve quality of life and lower related healthcare costs. As part of the shared-value healthcare model, we introduced value-based contracting, which aligns the dialysis provider's incentives to improved clinical outcomes for patients.



- Detailed monitoring of key dialysis metrics
- 100% of dialysis centres and patients enrolled
- Detailed reporting and feedback

The programme currently has:

- 1 968 PARTICIPANTS FROM VARIOUS CLIENT MEDICAL SCHEMES
- 138 SPECIALISTS
- 173 CHRONIC DIALYSIS UNITS

Outcomes of the programme

- Improved clinical outcome measures of **2.4%** BETWEEN 2013 AND 2016
- 2.44%** LOWER MORTALITY RATE among those who use the programme, compared with those who do not

Significant reductions in

HOSPITAL ADMISSIONS FOR RENAL-RELATED CONDITIONS
down from 1.54 admissions a day in 2013 to
1.35
ADMISSIONS A DAY IN 2016
(-12.3%)

LENGTH OF HOSPITAL STAYS FOR RENAL-RELATED CONDITIONS
down from 5 days for each admission in 2013 to
4.51
DAYS IN 2016
(-9.8%)

04 DEVELOPING INTUITIVE TECHNOLOGY AND SERVICES THAT IMPROVE THE HEALTHCARE EXPERIENCE FOR ALL STAKEHOLDERS

Discovery Health continued its investment in the healthcare system and digital healthcare assets over the reporting period. These initiatives strengthen our value proposition and the value we offer our client medical schemes. It is also manifesting in improved medical scheme benefits, servicing, health outcome improvements, better quality care, and ongoing reductions in healthcare costs. These outcomes are also how we measure our mandate to improve health, the quality of care, and value we share in the healthcare system. Over the period, we invested in:

Ask Discovery (Our virtual AI assistant)



Ask Discovery, our artificial intelligence chatbot, is available on the website and allows our clients to ask product- and service-related questions in their own words and to receive accurate and succinct answers. Ask Discovery is another first for Discovery in the South African healthcare system. More than 90 000 questions have been answered, with an 87% accuracy rate. This is resulting in operational efficiencies as the number of emails and calls are reduced. We now have a real-time understanding of actual questions our clients are asking, which helps us to identify opportunities to enhance our product offerings, communications, and self-service tools.

HealthID



Our HealthID app for health professionals is South Africa's first and most comprehensive electronic health record, and provides a complete view of patients' health history and test results. Significant progress has been made with its features and functionality, including the development of a website that has resulted in an increasing adoption rate. More than 4 400 doctors are using HealthID on a monthly basis and more than 1.3 million medical scheme members have consented for their doctors to access their health records. HealthID is a key strategy to improve quality of care through improved coordination between healthcare professionals.

DrConnect



Every year millions of people actively turn to the internet to self-diagnose. These unqualified diagnoses are potentially dangerous. To address this trend, Discovery Health, in partnership with HealthTap, launched DrConnect, an app that provides access to trusted health advice. DrConnect has access to a database of 5.5 billion curated medical questions and answers from over 108 000 doctors internationally, which provides immediate response and guidance. It also offers personalised tips and checklists to meet health goals. DrConnect, which is integrated with Discovery HealthID, enables virtual follow-up consultations using video, voice or text with select doctors in a secure, private environment.

The Smart Plan



The Smart Plan, launched in 2016, incorporates Discovery Health's analytical tools and digital assets to form an integrated digital healthcare plan with network providers and medical services. The plan offers the best value for money in the South African open medical scheme market due to its use of digital technology and healthcare professional networks. Its contributions are 23% lower than the average contributions of comparable health plans from other medical schemes. The plan now has approximately 36 000 members.

Launch of Discovery Gap Cover and Supplementary Gap Cover



Final demarcation regulations that govern health insurance products such as medical gap cover, hospital cash plans and primary healthcare policies took effect in April 2017. Discovery developed an innovative and cost-effective gap cover product that combines the Group's insurance and healthcare expertise, while complementing our medical scheme cover. Discovery Gap Cover provides additional financial protection against the unforeseen costs of healthcare. Discovery Supplementary Gap Cover, underwritten by Discovery Life, extends the cover for high-cost treatments related to severe illness, such as genome sequencing for more personalised cancer treatment, and offers home support and continuing medical scheme membership for greater client value and security. We have designed a single claim-submission process, where gaps in cover are identified, assessed, and paid automatically once the medical scheme claim is processed.

Value-add enhancements to PrimaryCare



We also enhanced the value proposition offered by Discovery PrimaryCare, an affordable healthcare product priced from R199 a month, aimed at employees whose earnings prevent them from taking out private medical scheme cover. This includes extending access to dependants, funeral cover, a private hospital Trauma and Stabilisation Benefit, integration with Discovery Wellness Experience and Discovery's new Employee Assistance Programme (EAP).



05

ENGAGING WITH REGULATORY STAKEHOLDERS TO BUILD A SUSTAINABLE HEALTHCARE SYSTEM

Discovery Health continuously works with all stakeholders and regulators to contribute to the sustainability of our healthcare system. Good governance and compliance frame our decision-making and engagements. In 2017 the revised National Health Insurance (NHI) White Paper was released. Discovery Health strongly supports the objectives of the policy and remains committed to working closely with the Department of Health and all other stakeholders to assist with implementation. The Department of Health announced the establishment of a number of committees that will involve multiple stakeholders in the development of NHI. We hope to participate actively in these committees, and we are also engaging with the Department to clarify some of the key issues and details of the White Paper.

We also continue to actively participate in the processes of the Health Market Inquiry of the Competition Commission. Their report with recommendations on aspects of the South African private healthcare sector is expected in December 2017. Discovery Health continues to engage extensively with the panel.

In addition, a review of the Prescribed Minimum Benefits is currently underway. We are working closely with the relevant regulatory bodies to assist in ensuring an outcome that is sustainable and which leads to the lowering of healthcare costs and improved access to high-quality healthcare.

OUTLOOK

Discovery Health will continue to build a shared-value healthcare system by continuously investing in technology and building on our platforms and benefits to ensure members of Discovery Health's client medical schemes are part of an increasingly integrated healthcare system.

During the next year, we will focus on the following areas:

- Lowering the cost of healthcare, which we aim to achieve through increasing and expanding value-based contracting, and linking such contracts to better health outcomes, and using a portion of the generated savings to better remunerate healthcare providers.
- As part of our comprehensive and inclusive shared-value strategy we will support the expansion of Vitality Active Rewards and implement more solutions that focus on personalised healthcare and wellness services through technology and disease management programmes.