



FACT SHEET

DISCOVERY HEALTH



Discovery Health is South Africa's leading medical scheme administrator and managed care provider. Our mandate remains clear: to provide medical scheme members with access to quality, affordable healthcare on a sustainable basis, while assisting in enhancing the healthcare system for all South Africans.

Discovery Health manages 40% of the total membership of medical schemes in South Africa, including Discovery Health Medical Scheme (DHMS), South Africa's largest open medical

scheme with 2.8 million lives and a 56% share of the open scheme market.

Discovery Health is also active in the management of restricted medical schemes, and has been awarded 16 out of 17 tenders to manage restricted medical schemes over the past 10 years. The business manages 18 closed medical schemes on behalf of corporate clients and has a 17% market share in the restricted medical scheme market. Engen Medical Benefit Fund joined the Discovery platform with effect from 1 July 2018.

Key data in our business

THE BUSINESS HAS GROWN SIGNIFICANTLY SINCE ITS INCEPTION IN 1992 TO COVER

3.5 million lives today

We currently provide administration and managed care services to 18 restricted membership schemes, and the country's largest open medical scheme, **DHMS**

THE CONTRIBUTION OF A MEMBER OF DHMS IS ON AVERAGE

16.4% lower

than the next eight largest open schemes on a plan-for-plan comparison basis

The business has developed scalable and flexible technology architecture built for speed

A new policy is activated every **22 seconds** and **R32.7 million** is paid in claims every hour

DISCOVERY HEALTH MANAGES THE HEALTH AND WELLNESS NEEDS OF MORE THAN

2 000 medium to large employers in South Africa

Medium: 50 – 199 employees
Large: 200 or more employees

DISCOVERY HEALTH HAS MORE THAN 4 000 EMPLOYEES, INCLUDING

30 actuaries

270 analysts

19 clinical coders

MORE THAN 73% of all members who join a medical scheme through their employer, join DHMS

New business

New policy activated every **22 seconds**
 A Discovery Baby is born every **6 minutes**
16% of applications received via **direct to consumer sales channel**
74 franchises nationwide
7 030 independent financial advisers



Digital support

2 million websites users
326 200 mobile users
4 400 monthly HealthID users
205 800 social media followers
1 768 395 digital membership cards downloaded

Service and claims

36 200 calls received per day
3 800 Walk-in-Centre visits per month
R6.2 billion billed in premiums per month
264 500 claims received per day
R32.7 million paid in claims per hour

Benefit management

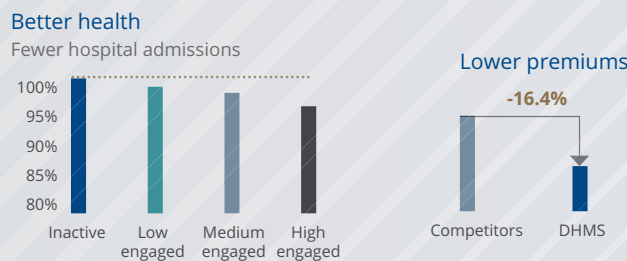
2 940 hospital admissions approved per day
1 800 Chronic Illness Benefit applications received per day
65 600 HIV programme members
56 900 oncology programme members

How shared value is implemented in Discovery Health

The success of Discovery Health is due to our ability to offer a fully integrated, value-driven healthcare system for all our clients. We operate beyond traditional administration and managed-care services, and provide ongoing product innovation, best-in-class service excellence, effective claims risk and fraud management. We also focus on the coordination and management of the quality of clinical services.

Our shared-value approach, with Vitality at the centre, enables a value-based healthcare system that improves members' health and lowers healthcare costs, resulting in lower contributions compared with those of competitors, and measurable improvements in the quality of care. This is reflected in health outcomes for members of client medical schemes, such as lower hospitalisation rates and shorter hospital stays. The success of the model is also demonstrated by the sustained strong performance of DHMS, and of the restricted medical schemes under our management.

MEMBERS

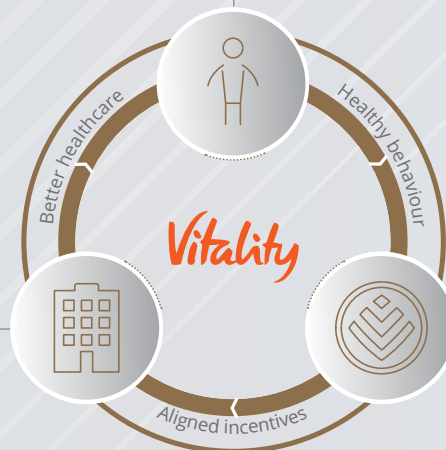


SOCIETY

Healthier and more productive workforce
 Impact of employee wellness on productivity



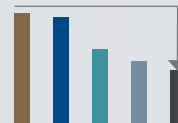
Increased revenues for healthcare providers
+R100m paid in quality incentives (since August 2012)



HEALTH INSURER

Lower claims

- Heart disease: **-41%**
- Diabetes: **-53%**
- Lung diseases: **-50%**



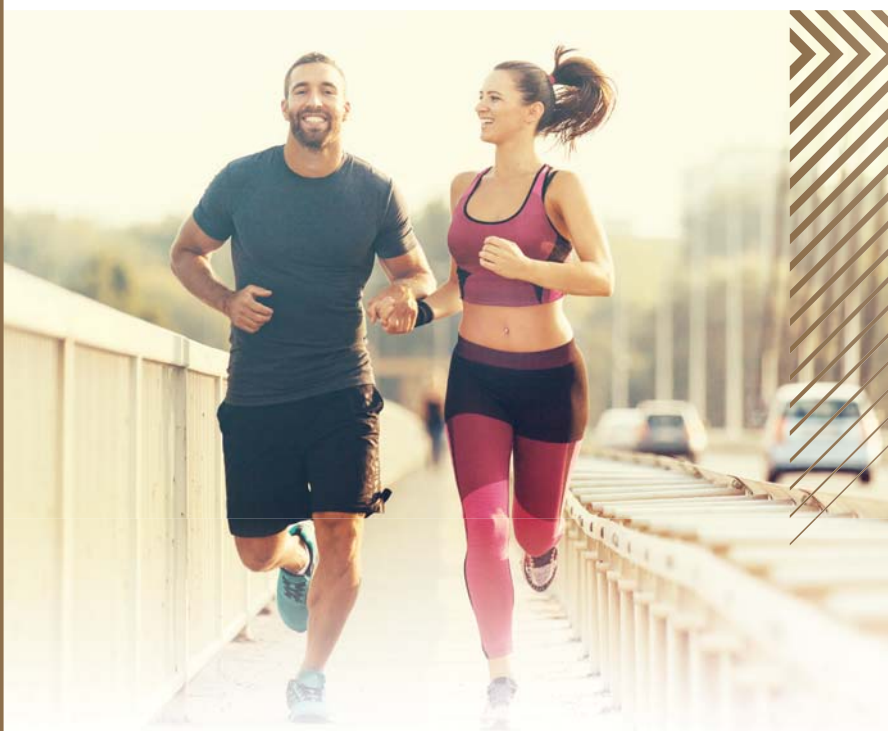
Increased growth and sustainability

- Solvency: **26.1%**
- Reserves: **R16.9 billion**
- Positive selection effects
- High persistency
- Strong membership growth: **2.0%**



DISCOVERY HEALTH

OPERATIONAL REVIEW



BUSINESS REVIEWS

50

Discovery Integrated Annual Report 2018

2018 performance

New business API

↑ 8%

to R6 573 million

(excluding take-on of new restricted schemes)

Operating profit

↑ 11%

to R2 777 million

Engen Medical Benefit Fund joined the Discovery Health platform with effect from 1 July 2018. The Fund has

3 344 policies
and

6 946 lives

With this addition, Discovery Health now manages **restricted membership** medical schemes with over **670 000** lives

DHMS membership

↑ 2.0%

to 2.8 million lives

The total number of lives under management in open and restricted schemes is over **3.5 million**

Discovery for Business, the integrated corporate offering, was launched to financial advisers in 2018

The response has been positive, with strong interest in the Discovery Health-affiliated products, namely HealthyCompany and PrimaryCare

Our strategy and differentiators



Our strategy 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 through a pioneering model that incentivises people to be healthier and incentivises healthcare professionals through value-based contracting – all contributing to a healthier society and more clients selecting Discovery Health.

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

The ability to offer consistently superior client value has manifested in market-leading new business, loss ratios and persistency metrics. The development of new products and markets, also leverage Discovery Health's unique intellectual property to deliver superior, sustainable earnings over the long term.

The success of our strategy is evident in the performance of the largest open medical scheme, DHMS compared with other open schemes.

	DHMS	Open schemes, excluding DHMS
Membership growth	1.3%	-1.2%
Market share	55.8%	44.2%
Operating result	R995 319 000	-R414 034 000
Net result, including investment income	R1 976 909 000	R643 406 000
Reserves growth	13.9%	6.0%
Solvency change	0.01pp	-0.01pp

The table presents December 2016 to September 2017 figures.

In addition, in line with global healthcare trends, we have increasingly shifted towards contracting with providers on the basis of increased value and quality of care, rather than on price. This involves the detailed monitoring of and reporting on healthcare quality measures, and careful collaboration with hospital groups and health professionals in the development of mutually beneficial value-based contracts and clinical governance projects.

Discovery Health has been reporting on DHMS members' ratings of the quality of care and patient experience in private hospitals. Since its publication on the Discovery website at the end of 2017, the Patient Satisfaction Score (PaSS) has been viewed more than 60 000 times and the overall average satisfaction score has increased from 56% in 2015 to 62.6% in response to the sharing of results, indicating the value of measurement in improving quality of care.

Similarly, we have extended the measurement of care to allow members of DHMS to rate their experience following a visit to their general practitioners (GPs). These GPs are part of Discovery Health's network and have agreed to take part in efforts to raise the quality of care. While we are identifying ways to increase the response from medical scheme members, 89.9% of GPs who were rated received a score of nine or 10 (highest possible score). Another indicator that most GPs are meeting their patients' needs is that 82% of respondents would recommend their GP based on the care they received. These initiatives are fairly new to South Africa and as with other healthcare systems that have been measuring the quality of care, we expect positive outcomes over time.



The key issues that impacted our business this year

1

Claims pressure and managing the impact of medical inflation

High medical inflation remains endemic, driven by a combination of supply and demand factors, and has been exacerbated by the increase in VAT from 14% to 15%. Supply-side utilisation increased by 1.9% and demand-side utilisation by 2.8%. Supply-side increases are influenced by growth in and use of new hospital facilities, as well as high-cost medicines and devices. Key demand-side factors include ongoing adverse selection trends and the increasing burden of chronic diseases and cancer, as well as the gradual ageing of medical scheme members.

To manage these factors, we continue to invest in risk management assets and systems, healthcare quality improvement programmes, an integrated digital technology platform, and data science and artificial intelligence capabilities. Approximately R140 million was invested over the past year, further enhancing Discovery Health's globally leading Shared-Value Insurance model. These investments delivered significant improvements in operational efficiencies, manifesting in reduced call rates and other drivers of operating cost.

Tough economic market conditions

Against slow economic growth in South Africa and significant affordability issues for a large part of the population, we have seen some slowdown in growth for DHMS, as well as competition in the middle- and lower-plan ranges. In response, we have addressed the competitive threats in the mid-range plan service through enhanced benefits. We have also optimised our KeyCare contributions and benefits to make access to private healthcare more affordable.

While market conditions are expected to remain tough, we continue to innovate and develop new products to offer value and make access to care easier and more affordable. In May 2018, Discovery Health launched Discovery for Business along with other business units. This is an integrated corporate offering including PrimaryCare (basic healthcare services to the lower income market), Discovery HealthyCompany (a digitally driven, science-based employee assistance programme), as well as Umbrella Fund and Group Risk products. This new offering provides a complete health and wellness solution for businesses and contributes to increases in business productivity and wellbeing. The response has been positive so far, with strong growth and pipelines for all products.

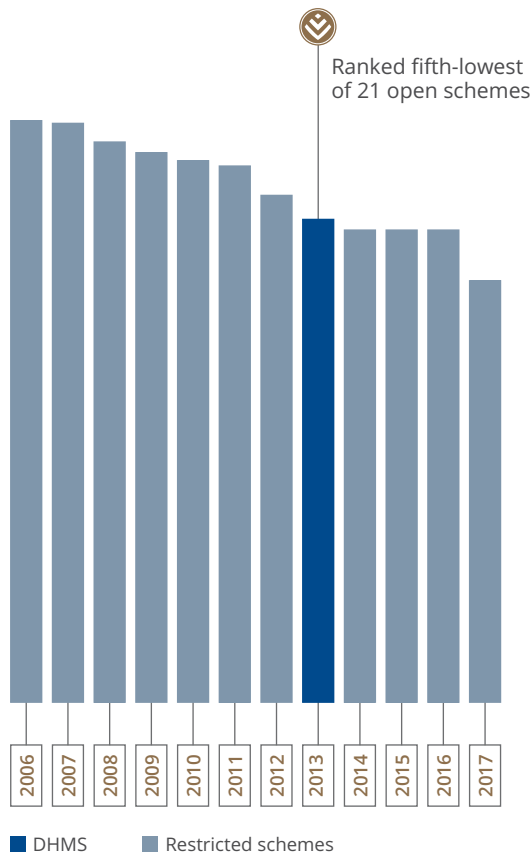
Our fraud control efforts project recoveries for 2018 in excess of R500 million. In the case of DHMS, Discovery Health achieved risk management savings of approximately R5.7 billion during 2017, representing 11.9% of potential risk claims, and a return on investment to the Scheme on its managed care fees of 269%.

Our risk management processes, programmes and model are effective in managing fees and claims costs

Lowest quartile administration fees

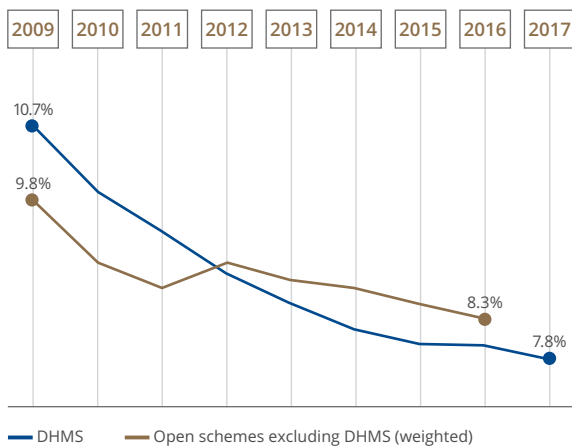
7.9%

Discovery Health total fees as a % of Gross Contribution Income (GCI)



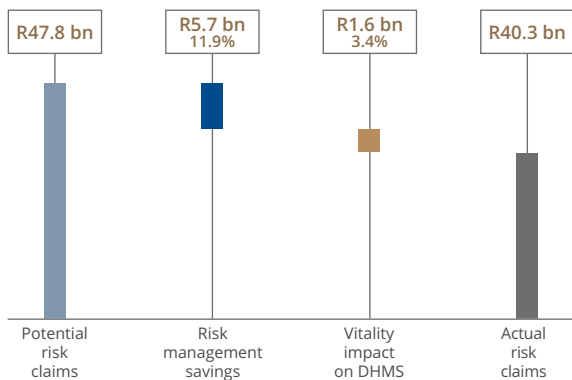
Decreasing real administration fee increases

Administration expenditure as % of GCI over time



Effective interventions to manage claims costs

Impact of Discovery Health and Vitality on DHMS risk claims in 2017





3

Challenging policy and regulatory environment

Discovery Health currently operates in a challenging policy and regulatory environment. We continue to engage actively with all regulators on key developments, including the Health Market Inquiry, the National Health Insurance (NHI) Bill, and the Medical Schemes Amendment Bill.

Discovery Health maintains its strong support for the proposed policies of the NHI system, and continues to work closely with the National Department of Health and other stakeholders to ensure optimal outcomes.

We plan to participate actively in the hope of making a positive contribution to these policies. We are also engaging with Business Unity South Africa, Business Leadership South Africa and the National Economic Development and Labour Council (NEDLAC) on NHI-related issues.

In response to the publication of the NHI White Paper, the Council for Medical Schemes (CMS) has restarted the Prescribed Minimum Benefits review process. We will also participate in this process. Discovery Health and DHMS are responding to the updated Code of Conduct, as are the Health Funders Association and Board of Healthcare Funders.

Discovery Health continues to participate in the processes of the Health Market Inquiry (HMI) of the Competition Commission, which reported its findings in June 2018.

Most of the findings and recommendations in the provisional report of the HMI are sound and consistent with Discovery Health's views, and will have a positive impact on the private healthcare system if implemented as proposed.

4

Continued investment to maintain leadership position

Discovery Health invests significantly in technology infrastructure and systems development.

As the market leader, we have made significant investments in initiatives aimed at maintaining and improving quality of care, including programmes tailored to members with diabetes, heart disease, kidney failure and those undergoing joint replacement surgery.

Furthermore, the business made significant new investments in big data analytics and artificial intelligence capabilities. This included the launch of DrConnect, a health information and virtual consultation app. Since its launch in August 2017, more than 320 000 medical scheme members and 2 700 doctors have registered for this service. While continuing to enhance the functionality and coverage of Discovery HealthID, the country's leading electronic health record system, which is in regular use by more than 1.7 million medical scheme members and more than 1 990 doctors, there is significant progress in building a fully integrated digital platform to improve the quality of service that members receive.

As part of our goal to build a better healthcare system, we continue to invest in numerous industry initiatives to respond to areas of need. We work closely with the Discovery Foundation to grow the number of specialists in our country, to support the continued pursuit of Academic Medicine and to give medical students financial and other supportive tools.



Read more about the Discovery Foundation and other initiatives in the healthcare system in our Sustainable Development Report.

5

Ensuring data security

South Africa has recently seen incidents of data breaches. As a company that deals with significant amounts of personal data, we take every precaution to ensure we protect our clients against data breaches. We have invested significantly in enhancing processes and controls around data protection and work closely with our risk management teams to ensure compliance with all requirements and international best practice in data privacy.


INVESTOR Q&A

OUTLOOK

Going forward, Discovery Health will focus on:

- Further entrenching our Shared-Value Insurance model through expanded value-based contracting arrangements and personalised disease management programmes integrated with Vitality.
- Improving service quality and efficiency through optimised member journeys, and deployment of robotic process automation and artificial intelligence applications to further develop the integrated digital platform to enhance interaction and engagement.
- Continued investment in risk management assets and systems that help us manage the effects of medical inflation.
- Continued scaling of the business and supporting international health insurance business developments.
- Continued engagement with all regulators on key developments in the healthcare system to help with the development of an integrated healthcare system that focuses on value and quality of care.

Q Given that you have 40% market share in a market where growth has been relatively stagnant, where do you see your growth coming from?

A We will continue to focus on identifying opportunities for growth within DHMS, as well as in the closed scheme market. In addition, we see significant potential to grow non-medical scheme revenues through our PrimaryCare, HealthyCompany and Gap Cover products, as well as through monetising our intellectual property in global markets.

Q Are you concerned that your size will result in you being perceived as anti-competitive?

A No. The markets for open medical scheme members and for administration of restricted schemes remain competitive. Discovery Health complies with all regulatory requirements and our administration fees are in the bottom quartile in the market and continue to reduce as a percentage of premium income. Our products and services generate significant value for all stakeholders and we work with the industry to improve care, manage medical inflation and identify partnerships that support an integrated healthcare system.

Q We understand your supportive and cooperative view, but how will NHI/HMI affect your business?

A Please see point 3 under key issues for our business.



Read our response on the role of medical schemes in context of the NHI here: <https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/dhms-investors-regulatory-developments.pdf>

Q Are you continuing with interventions to reduce supply-side medical inflation?

A Both demand-side and supply side factors affect medical inflation. We actively engage with the healthcare industry to identify the reasons for increased supply-side demands. We continue to invest in value-based funding mechanisms and other programmes to ensure the best health outcomes, while considering advances and changes in the healthcare landscape. Please see point 1 under key issues for our business.