




REVIEW FROM
**ADRIAN
GORE**

DISCOVERY CHIEF EXECUTIVE

Discovery's core purpose of making people healthier and enhancing and protecting their lives manifests in our pioneering Shared-Value Insurance model, whereby value is created and shared with clients, the business and society.

 Read more about the Group's performance and other highlights of each business in this report from **page 39**.


Ambition 2018 has been a powerful driver of Group strategy and performance

Our model has been successful in a range of adjacencies and markets, leading to our strong conviction that it is disruptive and differentiating, as well as a positive force for good in society. Based on this confidence, we set a bold ambition for 2018 measured against the metrics of financial and social impact, brilliant businesses and a unique foundation. The Group has made great progress against these metrics: the Shared-Value Insurance model is scaleable, repeatable and globally relevant; and our earnings, return on capital and membership numbers are close to their targets – despite these being stretch goals. Importantly, Ambition 2018 has been an excellent driver of our strategy and has led to disciplined models for organic growth, capital and cash management. These targets have also seen us evolving the Shared-Value Insurance model and building a strong portfolio of diversified businesses.

In terms of social impact, we are now operating in 19 countries through partnerships with leading insurers. Work is ongoing within the Global Vitality Network (GVN), a central function aimed at developing the Shared-Value Insurance model and leveraging its data capabilities and influence to maximise our reach and impact. Progress was made over the period in developing a central Research and Development function, extending global reward partnerships, and initiating a global communications campaign. Importantly, the Vitality One technology infrastructure went live over the period, offering a globally unified systems architecture to partner insurers. We continue to invest substantially to build the network's capability and scale.

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 Read more about regulatory developments impacting the healthcare industry in the Discovery Health business review on **page 48**.

 Read more about Ambition 2018 on **page 32**.

A considerable focus was placed on the build and development of Discovery Bank over the past year, which is largely on track and within budget. Discovery Bank has achieved major milestones in record-breaking time, gaining key licences from regulatory bodies and membership to industry associations. We also reached an important agreement regarding the Bank's shareholding, the details of which our Financial Director, Deon Viljoen, shares on page 20.

The Discovery Card is an asset in this regard, with excellent financial performance over the year and clients exhibiting a substantially better risk profile than the market average, which bodes well for the Bank.

All businesses performed strongly and are positioned for continued growth

Discovery has built up a strong portfolio of businesses at different maturity levels, which all performed excellently during the year under review. Every business grew its operating profit, and virtually all were cash-generative with total non-economic positive experience variances, and returns on capital at, or approaching, the Group target.

In the South African market, Discovery Health delivered excellent results, with strong operating profit growth of 11% to R2 777 million and new business growth of 8% to R6 573 million (excluding take-on of new closed schemes). Discovery Health's mandate remains to provide its members with access to high-quality, affordable healthcare on a sustainable basis while also assisting in enhancing the healthcare system for all South Africans. In this regard, there were three major themes during the past year: Discovery Health's response to regulatory developments; its efforts to curb the impact of steep medical inflation by providing better value for money and deflationary administration fees; and the development of a richer, more integrated value offering for employees and employers.

Discovery Life focused on quality, prudence and efficacy and grew earnings by 7% to R3 837 million. In addition, we increased new business market share in the retail affluent protection segment. Innovation over the period included the Global Education Protector being recognised as one of the most innovative life insurance products globally, while the new Purple Life plan led to a 23% increase in policies with cover of over R10 million. Considerable focus was also applied to financial and actuarial management and assumptions, which is covered in more detail in the review from our Financial Director, Deon Viljoen, on page 10.


Discovery Invest's performance was robust in an environment of weak financial markets, growing operating profit by 19% to R885 million. The emphasis was to continue to utilise the Shared-Value Insurance model in long-term savings to shift behaviour toward saving earlier, saving more, and drawing down less in retirement. This, combined with efficient asset management structures, yielded excellent results for clients while maintaining and enhancing margins.

Discovery Insure had an excellent and seminal period with a strong shift to profitability, generating a full-year profit of R68 million. The Shared-Value Insurance model has demonstrated remarkable results in selection, behaviour change and selective lapsation in the personal lines market, positioning us well for future growth.

An important extension of the model in South Africa in the past year was the launch of Discovery for Business, where Discovery Health, Discovery Insure and Discovery Invest launched products aimed at the commercial sector. Underlying this is a belief that more robust businesses inherently represent better risks, and that a key part of this is creating powerful employee solutions. Discovery Business Insurance offers cover for modern risks; rewards drivers and fleet owners for driving well; and partners with global business accelerator, Endeavor, to offer a curated market place with business development partners.

As demonstrated through our performance, the Group is strongly positioned for continued growth, with an excellent set of diversified businesses, many of which have significant potential.

The Group also leveraged its range of sponsorship assets and mass participation events to extend the engagement and reach of Vitality, bringing to life our core purpose of making people healthier.

 Read more about the performance of Vitality UK on **page 74**.

 The further growth of Vitality Group has three main strategies, which have been outlined in the business review on **page 82**.

HealthyCompany is a digitally-enabled, comprehensive employee assistance programme and wellness solution that identifies and proactively supports employees. The Discovery Invest retirement funds product enables employees to retire comfortably through better choices and boosted retirement savings and while the Group Risk offering protects employees and their families from unforeseen circumstances, and rewards them for getting healthier.

In the UK, Discovery's composite business is gaining scale and total lives grew by 11% to 1.1 million. The launch of VitalityInvest and the exceptional performance over the period have created considerable opportunity for continued growth. VitalityInvest brings together behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and look after their health. Our successful delivery relies on bespoke financial planning and cash flow modelling tools built on Vitality's proprietary research and data on life expectancy. This has been developed in collaboration with academic partners such as the University of Cambridge and RAND Europe.

Vitality continued to see positive member engagement and high levels of benefit utilisation, and made ongoing investments in its brand. Vitality UK added Disney in a partnership aimed at children, signed on two new ambassadors, and extended its presence and sponsorship in cricket and football, as well as becoming the Official Wellness Partner of England Hockey. VitalityHealth performed outstandingly, largely due to the additive effects of the model and the various interventions over the past few years. VitalityLife had an important period with the business completely re-engineering itself for the low interest rate environment.

Vitality Group had an exceptional year, transitioning to profitability and insurance partners' membership increasing by 91%, with total Vitality Group membership reaching 1.56 million (full Vitality members).

A significant development was the launch of Vitality with Sumitomo Life in Japan. Vitality Group is well positioned for growth, with a codified model for creating maximum value per market.

Ping An Health, in which Discovery owns a 25% stake, had a phenomenal year, with new business growing by 87% to RMB 2.9 billion and revenue growing by 80% to RMB 4.9 billion. Ping An Health's growth and strategy is being driven by five important factors: China's health insurance market is expected to continue growing significantly; the potential to extract more value from distribution by using technology; adapting product strategies to market realities; investments into scaling operations; and increasing the sophistication of risk management to ensure sustainability.

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The excellent performance of each of our businesses has been supported to a large extent by innovative marketing efforts, particularly investments in digital marketing. Beyond advertising, the Group leveraged its range of sponsorship assets and mass participation events to extend the engagement and reach of Vitality, bringing to life our core purpose of making people healthier.

For example, the inaugural Vitality Run Series in Johannesburg in 2017 attracted thousands of participants competing in four consecutive races, with the concept expanded to Cape Town and repeated in Johannesburg this year. Move to Give has also elevated the social role of our behavioural asset, Active Rewards, by giving Vitality members the opportunity to donate the value of their weekly activity rewards to charity.

The Discovery Foundation has invested in improving South Africa's healthcare ecosystem.

The Foundation supports government in addressing the critical shortage of medical graduates and specialist skills, and since 2006 has **invested more than R210 million** in 400 recipients.

The Group continued to focus on being a force for social good

Discovery's principal means of improving society is through the value created and shared by our business model, improving the health and wellbeing of millions of clients around the world. We have seen the dynamics of the Shared-Value Insurance model manifest across all industries: in life insurance, the model leads to a 20% better claims experience (compared to non-Vitality) and more than 50% lower mortality risk for highly-engaged members; in health insurance, it leads to lower hospital costs and lower rates of chronic conditions among initial engagers; in motor insurance, it leads to 15% better driving behaviour and 60% lower lapse rates; and in long-term investments, it leads to more responsible management of income drawdowns in retirement.

In addition to Discovery's shared-value product offering, the Discovery Foundation has invested in improving South Africa's healthcare ecosystem. The Foundation supports government in addressing the critical shortage of medical graduates and specialist skills, and since 2006 has invested more than R210 million in 400 recipients (296 individuals and 104 institutions). In the 2017/2018 financial year, the Foundation approved over R14.4 million towards 15 Academic Fellowship and Sub-specialist awards; R2.1 million for one Discovery Foundation Massachusetts General Hospital Award; R1 million for one Excellence Award; and R8.3 million for 34 awards for rural areas.

Complementing the Foundation, the Discovery Fund focuses on strengthening healthcare systems by creating access to primary healthcare through skills development and primary healthcare service delivery. In the year, the Fund provided R32.1 million to 44 organisations, of which R8.8 million was allocated towards maternal and child health interventions. Other projects include community health; skills development and flagship initiatives.

Significant investment in our people is an ongoing priority

Discovery believes in the power of its people and is committed to liberating the best in them. This includes recruiting the best person for every role and ensuring they are highly engaged, with dedicated development programmes at every level.

From a recruitment perspective, over the past two years we have focused on embedding the Discovery Future Leaders Campus Recruitment drive.

In 2019/2020, this recruitment drive will be extended to broader specialisations including marketing, finance, HR, data sciences and clinical, and will be hosted as an integrated Discovery Career Day event at selected campuses.

The Fellowship Award is a flagship talent programme in Discovery, which aims to discover, nurture and grow the country's top actuarial talent. Universities in South Africa nominate their top five Honours students in actuarial science who are entered into a rigorous assessment process. Although only one Fellow is ultimately selected, the aim is to offer all participants permanent employment as actuaries in Discovery. In 2018, we hosted 19 participants from four universities, with 11 joining Discovery in 2019.

On the IT skills front, Gradhack invites third-year and Honours information technology students from across the country to submit business cases to be developed by small teams. Up to 30 students are hosted in Johannesburg over four days, with a final hackathon taking place over 48 consecutive hours. In 2018, we hosted the largest group since the hackathon's inception – a total of 36 students from eight universities – and offered 33 students positions, with 25 joining Discovery in 2019.

Discovery has set a bold ambition to be the Healthiest Company by 2020, and a three-year plan was implemented in 2017, starting with foundational interventions. The individual employee journey was launched in May 2018 and employees selected over 10 000 wellbeing goals for the year, which will be supported by Vitality, HealthyCompany and Employee Programmes.

Discovery has a compelling vision for its transformation agenda and a robust strategy focusing on management control, employment equity, access to financial services and empowerment financing. As a growing company, we have many opportunities for exceptional black talent, including the newly formed Bank, to add value, grow and achieve career aspirations. Discovery Limited is certified as a Level 3 contributor on the new Financial Sector Codes (FSC) scorecard.

We have completed a succession planning exercise for all critical skills across the Group and are satisfied that we have enough coverage in terms of talent. We conduct two strategic talent reviews each year to monitor progress and hold CEOs accountable for their development.

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Looking ahead

Under the guiding framework of Ambition 2018, the organisation is now fundamentally different to what it was five years ago. Discovery evolved from being present in five countries to being present in 19; from an operating profit of R4 billion to more than R8 billion, as well as reaching millions of customers around the world.

We have built the organisation on a simple but profound core purpose that puts us at the centre of our clients' lives. This focus on our core purpose has resulted in a business model geared to creating shared value, and a scalable and repeatable business model globally. Discovery's growth model and philosophy have revealed the need for continued investment in major new growth initiatives such as Discovery Bank and VitalityInvest, and we continue to look for and develop new, transformative opportunities to drive further growth.

We are working hard to finalise the next Group strategy to 2021, with a vision to become the largest behavioural platform integrated with financial services in the world. This is an exciting and formative time for Discovery.

