Discovery Health continued to deliver on its objective of ensuring that the members of the medical schemes under our management have access to high quality healthcare on a sustainable basis. We also take very seriously our critical role of contributing to the development of a more equitable, efficient and accessible national healthcare system, not only for members of our schemes under management but for all South Africans. During the past year, Discovery Health’s performance was exceptional.

### OVERVIEW OF DISCOVERY HEALTH

- **NORMALISED OPERATING PROFIT**: 10% increase to R1 499 million
- **NEW BUSINESS ANNUAL PREMIUM INCOME**: 10% growth to R4 282 million
- **LA HEALTH**: 30.5% growth to 85 551 lives

#### Our performance in 2012

- **Individual new business** grew by 10% off a high base
- Normalised operating profit increased by 10% to R1 499 million which includes a R100 million reduction in administration fees during the financial year
- **Total medical scheme membership increased** to 2 664 573 (at 30 June 2012 for all schemes under management)
- Discovery Health Medical Scheme (DHMS) membership increased to **2 417 369 lives** at 30 June 2012
- LA Health, the restricted scheme for local authorities, grew by 30.5% to 85 551 lives
- The Foschini Group Medical Scheme joined the Discovery Health administration stable
- Annual DHMS lapse rate reduced from 4.3% in 2011 to 3.9% in 2012 (at 30 June 2012)
- **DHMS members pay between 10% and 30% less** than what they would on other schemes per unit of benefit
THE IMPORTANT ISSUES DURING THE PAST YEAR

The issues that are material to Discovery Health relate to the value we create for our direct and indirect stakeholders – the 2.6 million lives covered by the Discovery Health Medical Scheme (DHMS) and other schemes under our management, as well as stakeholders in the broader healthcare sector. Our role is to ensure sustainable medical schemes that function in a robust healthcare system. Over the past 20 years, we have worked in a highly successful partnership with DHMS that has seen the Scheme grow from a start-up to the benchmark medical scheme in the industry with 2 417 369 members, equivalent to 50% of the membership of the open medical scheme industry and 30% of the total medical scheme industry. At present, DHMS membership consists of 311 998 individual members who are signed up in their own capacity, and 817 856 employer groups representing every industry and sector in our economy, with employers ranging in size from one to 12 805 employees. The way we manage the schemes under our administration impacts positively not only on these schemes, but also on the wider healthcare system.

Ensure that the Discovery Health Medical Scheme remains the best value proposition in the South African medical schemes industry

Medical schemes in South Africa operate in a highly complex and challenging environment characterised by high medical price inflation, high-cost new medical technology, an increased chronic disease burden and changing demographic profile, as well as a shortage of healthcare professionals, fraud and benefit abuse and regulatory requirements. Within this complex environment, DHMS continues to provide unsurpassed value to members. The value offered to members is evident from the following key performance metrics:

- Discovery Health Medical Scheme members pay between 10% and 30% less than for comparable plan options in the rest of the industry.
- The Scheme’s track record of contribution increases is one of the best in the industry: the five-year annualised contribution increase for Discovery Health was 9.8% compared to the industry average of 11.3%.
- Discovery Health continues to grow membership in an environment where the majority of schemes are shrinking. Over the past five years, the open schemes outside of DHMS have lost a total of 845 246 members, while DHMS has grown by 466 891 members over the same period (31 December 2006 to 30 September 2011).
- Our operational scale is unparalleled: Discovery Health employs over 3 500 people, including doctors, nurses, actuaries, economists and statisticians. Discovery Health employees handle approximately 38 000 calls per day with 82% of queries resolved on the first call. We authorise approximately 50 000 hospital admissions per month. The average claim is processed in under two hours. We process over 16 000 new membership applications per month, with an average turn-around of 3.5 business days. We collect contributions from thousands of employer groups and individuals totalling R2.93 billion per month, and process and pay 3.7 million claims to the value of R2.4 billion every month. However, the above statistics and figures mean nothing if they do not translate into satisfied clients. We are proud to report that we have achieved an all-time high client perception score of 8.96 (out of 10).
- Administration fees and managed care fees are on par with the market and are on a reducing trajectory in line with the ongoing growth of DHMS. DHMS pays Discovery Health a fixed fee per member per month for all administration and managed care services. The Trustees of DHMS have, since 2009, negotiated a fee structure that ensures that fees are reduced in line with the ongoing growth of the Scheme. For this reason, the fees paid by DHMS to Discovery Health have been the only cost component in the Scheme’s total expenditure that has been falling in real terms over the past few years. All other areas of claims cost – linked to escalating medical provider tariffs and the higher member sickness burden – continue to increase at a rate higher than CPI. Over the past five years, claims have increased at 12% above CPI, driven by high utilisation of medical services and the high cost of new medical technologies. Over the same period, the fees paid by DHMS to Discovery Health have fallen by 4% in real terms. This is due to ongoing fee reductions which have been in place since 2009 to reflect the growing size of the Scheme and the consequent economies of scale. These reductions in fees are expected to continue in line with ongoing growth in DHMS, with a target of fees being 10% of total contribution income. At this point, our administration fees will be in the bottom quartile of fees charged in the market.
- Data from the period 2005 to 2010 demonstrates that the average annual claims inflation for DHMS has been 7.9%, compared to 10.9% for the rest of the open medical schemes market, relative to CPI over the period of 6.4%. In real terms this means that annual claims inflation has averaged just 1.5% compared to 4.5% for the rest of the open market.
- The scale and breadth of our network assets and payment models ensure that out-of-pocket costs for members are reduced. Close to 90% of all DHMS member interactions with GPs and specialists happen in a network or within a payment arrangement contract, meaning that healthcare professionals are paid directly with no shortfalls for the member. These arrangements, which have now been in place for five years, provide DHMS and other schemes under our management with unique protection against the rising costs of funding Prescribed Minimum Benefit conditions at the full cost charged by health professionals. Across all plans, DHMS paid 97.1% of all in-hospital claims and 99.8% of oncology claims, confirming our view that
the Scheme continues to provide outstanding value, particularly for those who experience a critical illness or major hospital admission.

**Contribute to a better healthcare system through breakthrough innovations**

Working within a complex environment where the needs of various stakeholders must be balanced, our objective is to maximise the value members receive. Ongoing innovation in products and services is therefore a critical objective for Discovery Health. We have advised DHMS in the development of a robust and comprehensive plan range that caters for different medical and financial needs. More importantly, we continuously work to enhance and maximise cover. Enhancements over the past few years have included the Specialised Medicine and Technology Benefit, the Trauma Recovery Extender Benefit, the Insured Network Benefit and the Oncology Benefit.

A critical innovation launched during the year was HealthID, a healthcare information application developed by Discovery Health, and a first in South Africa. This initiative aims to improve the quality of care for patients by giving healthcare professionals treating Discovery Health members access to their health records. This is made possible by iPad and other tablet technology. The development of HealthID has required the transformation of billions of lines of claims data into accessible health records that make it more efficient for both the healthcare professional and patient to interact with the healthcare system. Doctors can easily access their patients’ records such as previous visits, hospital visits and blood test results, apply for chronic benefits in real time, prescribe medicine and refer patients to other doctors. We developed HealthID in response to a growing need in the healthcare system for an integrated view of information as well as the global trend towards and mainstream adoption of mobile digital technologies. HealthID provides an opportunity to transform the way healthcare professionals and patients navigate the healthcare system, and offers long-term benefits for the quality of care across the healthcare system.

**Functionality was designed in response to doctors’ needs**

- **What doctors asked for**
  - Co-ordination of care
  - Reduced admin burden
  - Accuracy of information
  - Risk mitigation
  - Customised information (when you need it)
  - Accessibility

- **What we delivered**
  - Online Chronic Illness Benefit submission
  - Reduced admin burden
  - E-scripting tool / Medicine lists
  - Member consent
  - Discovery Health information per plan and forms
  - Reduced price, interest-free loan, free data, increased consult fee

**Take-up has been excellent**

- 1 607 iPads bought
- 1 345 doctors logged in
- 5% of doctors engage on a regular basis
- More than 44 000 member consents given
- **General and electronic health record information functionality used most**
- 62% of all new Chronic Illness Benefit applications done via HealthID

* Data stated as at the time of compiling the report (September 2012)
3 Ensure the sustainability of the schemes under our management

The long-term sustainability of DHMS and other schemes under management is a key priority for Discovery Health. During 2011, DHMS as well as our restricted schemes continued to grow rapidly relative to the rest of the market. DHMS added a net 109,457 lives while the only other growing schemes, Bestmed, Resolution and Momentum, added 11,292, 8,239 and 5,314 lives respectively. The remainder of open schemes lost membership during this period, confirming DHMS as the benchmark medical scheme with the highest growth rate, offering continuity, financial stability and predictability for members. This confidence is confirmed by the low average lapse rate, which has further reduced to 3.9% and remains the lowest in the open schemes market by a significant margin.

The level of DHMS’ reserves has increased to over R7.4 billion at 30 June 2012, which is indicative of the financial strength of the Scheme. Independent credit rating agency Global Credit Rating has validated DHMS’ position with an AA+ credit rating, the highest possible rating that has only ever been awarded to DHMS in South Africa.

Growing medical schemes need to “catch up” to the solvency requirement while they are building up reserves, as every new member sets a scheme back in terms of its solvency. The solvency pressure of DHMS is thus entirely due to rapid membership growth, which is excellent for the long-term health of the scheme.

The Council for Medical Schemes understands this issue and for this reason they do allow schemes who are in this situation to address the solvency requirement over a specified timeline. The Council has approved Discovery Health’s business plan which envisages the Scheme increasing solvency to 25% over the next three years.

4 Manage the high cost of healthcare

Discovery Health has invested significant expertise in developing an operating model to manage healthcare funding efficiently and cost-effectively to ensure the sustainability of the medical scheme. This model, which brings together a consumer-centric product construct, risk management assets, healthcare provider networks and assets, digital health tools and value-added services, is underpinned by the Vitality wellness programme. The effectiveness of this model is measured through the lower average claims costs and premium increases experienced by DHMS and other schemes under management, relative to the rest of the industry.

We have also been successful in building sophisticated health analytic assets to improve the quality of care for members and eliminate inefficiencies in the system. Health analytics is a critical skill and asset for healthcare funders as it enables the funder to better manage risk over the long-term.
Health analytics is a specialised and unique asset to Discovery Health that enables us to negotiate lower and more cost-efficient prices with providers such as hospitals and drug manufacturers. Our ability to negotiate lower prices has had a significant and positive impact on the healthcare system. For example, we negotiated a 43% cost reduction on the average price of Adco-Atorvastatin, a medicine used to treat hyperlipidaemia. Similarly, we have negotiated lower prices for the hypertension drug Ran-perindopril (50%) and the renal failure drug Mircera (15%). Because of Single Exit Price legislation, these drug price reductions benefit all users in the private healthcare system.

The McKinsey Global Institute estimates that big data analysis could save the American healthcare system US$300 billion per year and the European public sector €250 billion.

Discovery Health’s health analytics assets also assist in segmenting scheme members in the correct category of clinical severity, thereby assisting them to access the correct level of care through Discovery Health. Members who for example have an illness that requires ongoing and complex treatment are able to access disease management and coordination of their care that ensures they receive the appropriate level of care.

For Discovery Health, health analytics includes the data analysis and interpretation of a range of issues that impact the quality and cost of healthcare. These include:

- health claims and demographics of a considerable population
- Vitality and wellness data as well as wellness benefit usage
- member service interactions
- hospital profiling through tariff negotiations
- clinical interventions
- network selection
- surgical devices
- health professional profiling through performance projects
- outlier management
- benefit management
- pricing negotiations
- protocol and pilot projects and targeted interventions
- member profiling through wellness interventions and at-risk identification
- disease management
- care coordination.

### Using health analytics to reduce hospital and drug cost

#### Hospital price negotiations

<table>
<thead>
<tr>
<th>Year</th>
<th>Price as a % of industry average</th>
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<tbody>
<tr>
<td>2010</td>
<td>91%</td>
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</tbody>
</table>

- 5.1% more efficient than the industry

#### Drug price negotiations

<table>
<thead>
<tr>
<th>Drug Name</th>
<th>Average Price R</th>
<th>Cost Reduction</th>
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</thead>
<tbody>
<tr>
<td>Adco-Atorvastatin (10-40mg) (Hyper-lipidaemia)</td>
<td>2.52</td>
<td>43%</td>
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<tr>
<td>Ran-perindopril (Hypertension)</td>
<td>1.21</td>
<td>50%</td>
</tr>
<tr>
<td>Mircera (Renal Failure)</td>
<td>4250</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Discovery Health leverages significant health analytics capability**

- **HEALTH ANALYTICS UNIT**
  - **Health claims and demographic data**
  - **Vitality wellness and benefit usage**
  - **Member service interactions**
  - **Discovery Group products**

#### Hospital profiling

- Tariff negotiations
- Clinical interventions
- Network selection
- Surgical devices

#### Health professional profiling

- Performance projects
- Network selection
- Outlier management

#### Benefit management

- Pricing negotiations
- Protocol and pilot projects
- Targeted interventions

#### Member profiling

- Wellness intervention and at-risk identification
- Disease management
- Care coordination

**HealthIQ**

**InForma™**
We also use health analytics to understand the trends in claims and benefit usage. This is significant in ensuring benefits are designed appropriately according to the spectrum of healthcare needs. Our approach has always been to ensure that DHMS and other schemes under our management provide comprehensive benefits when members have the greatest clinical need. High-cost events and conditions such as hospitalisation and cancer treatment can be financially catastrophic for families. For this reason, we continuously advise our schemes to enhance benefit structures in order to eliminate waste and benefit abuse, and to increase benefits in areas of critical care. This is a challenge facing all medical schemes. While the majority of members are paying for a small number of members who abuse benefits, the financial implications for a medical scheme are severe.

During the year, we continued our focus on advising DHMS to correct benefits in areas where there are abuse, in order to rebalance benefits in areas of critical care. One of these areas was the Allied and Therapeutic Benefit where we identified a trend of a small group of members using the benefit for services that are not medically necessary. Our approach to addressing this trend was for the Scheme to implement a high limit that would cater for all members where benefits are used appropriately, with in-hospital and Prescribed Minimum Benefits remaining unchanged. The benefit limit has been set to cater for more than 98% of Scheme members who claim for these benefits, based on current benefit usage patterns. If additional cover is required above these limits, an Allied and Therapeutic Extender Benefit automatically provides unlimited coverage for specified clinical conditions requiring extensive treatment. The benefit is also flexible enough to ensure that any members who do not automatically qualify for the Allied and Therapeutic Extender Benefit can apply for additional benefits once they have used their annual limit. The Scheme will submit all such applications to external clinical panels for adjudication, and will approve funding for additional services if so advised by these panels.

By September this year, very few members were impacted negatively by the changes to the Allied and Therapeutic Benefit, with 0.85% of the relevant members claiming from this benefit reaching their annual limit.

The impact of the change in this benefit has been significant for the rest of the open medical schemes industry. While actual spend has been lower or even within the expected spend last year, it has continuously increased to outstrip the forecasted spend by medical schemes this year.

**The global trend of escalating healthcare costs**

High rates of medical inflation are a significant and growing global problem, and are not unique to South Africa. While provider tariffs increase largely in line with CPI, key drivers of the ongoing high increases in medical inflation include (1) an ageing medical scheme population, (2) rapid increases in the number of scheme members with chronic illnesses and cancer, (3) the high cost of new medical technologies, and (4) the fact that more young people are choosing to join medical schemes later in life. New scheme members are also buying lower option plans than in the past, only upgrading when they become ill. This behaviour, called anti-selection, is due to the current regulatory environment and impacts all medical schemes. This means that it is increasingly difficult for medical schemes to find the balance between generating a surplus from healthy members to fund the high costs of a minority of sicker scheme members. The graph below shows that it takes the surplus funding ability of 10 000 healthy members to fund the treatment of 902 high-utilisation members across various benefits.

**Responsible benefit design is required to maintain access to high quality, appropriate care**

Funding ability of 10 000 healthy* members =

- **High Allied Benefit users**: 277 high Allied Benefit users for one year
- **Gleevec treatment**: 234 cancer sufferers for one year
- **TAVI cases**: 227 TAVI cases
- **Renal dialysis cases**: 164 renal dialysis patients for a year

* Defined as members in Resource Utilisation Band 1 (350 000 lives during 2011)
KEY STRATEGIES FOR 2013

Our key strategies for 2013 focus on the sustainability of the schemes under management and providing value to consumers:

- Ensure that the Discovery Health Medical Scheme and other medical schemes under our management continue on a healthy growth and financial trajectory
- Continuous innovation in benefit design to provide access to the latest medical technologies for those with the greatest clinical needs
- Use our health analytic assets to improve the quality of care and eliminate inefficiencies in the healthcare system, ensuring that scheme members obtain the richest benefits at the lowest premiums in the market
- Leverage our scale and the latest mobile digital technologies to change the way our clients experience the healthcare system
- Empower and enrich our members through education and tools to navigate the healthcare system and improve their quality of care
- Embed Vitality as an integral partner for our members
- Strengthen the Discovery Health brand through continuous, pro-active and positive engagement with all stakeholders.

No of MEMBERS

2.68 million

Total HOSPITAL costs for a year

R16.82 billion

CHRONIC ILLNESS BENEFITS paid in a year

R1.74 billion

Average cost for a HEART and LUNG transplant

R1 803 656

Top chronic condition: HYPERTENSION

236 797 members

Total claims paid for CANCER TREATMENT

R912 million

Highest single HOSPITAL CLAIM

R4 311 508 for 70-year-old in critical care
that we work closely with doctors, hospitals, pharmaceutical companies and other stakeholders in the interests of our members, for their own sustainability and that of the broader healthcare system. It is also our responsibility to work closely with policymakers at all levels in the interests of the development of the NHI and the broader national healthcare system.

How do you ensure that Discovery Health continues to provide value for all stakeholders?

We need to continually engage in an open manner with all key stakeholders, including our members, their healthcare professionals, the trustees of our schemes and policymakers. This open style of engagement will allow us to understand the needs and objectives of our various stakeholders, and puts us in a strong position to meet those needs.

We also need to continue to hire the best and brightest talent that South Africa produces, as this talent is what drives our innovation, and our ongoing commitment to service and operational excellence. Investing in new technology, systems and product innovation is another important factor that supports our business.

What are the trends in healthcare for the next year to five years?

I believe that we will continue to see costs escalate, although we are confident that we can manage and influence this rate of inflation. This will lead to greater focus on critical care within schemes, possibly at the cost of some of the more discretionary elements of day-to-day care. There will be much greater collaboration between funders and providers of healthcare, and more innovation in models for delivery of healthcare. We will also see the emergence of more examples of integrated care, in which different service providers and funders collaborate much more closely, rather than the current system in which each stakeholder works in isolation.

Mobile and other digital technologies will play a much greater role in people’s lives and will impact on how healthcare is delivered to patients, how doctors interact with their patients and with funders, and how members interact with their medical scheme.

Lastly, we hope to see much greater collaboration and connection between the private and public healthcare systems.

What are the value drivers for Discovery Health?

A key value driver for us is our ability to innovate continuously in product design and service delivery, and within the healthcare system. Innovation is absolutely necessary to ensure healthcare cover of a high quality that is affordable and sustainable over the long term. Our ability to provide best-in-industry service levels that are on par with best practice internationally is critical in an environment that is often highly complex for consumers to navigate. Collaboration with all stakeholders in both the public and private sectors is important to ensure that the national healthcare system can increase access to high quality healthcare. Closer to home, our collaboration with the various boards of trustees of all schemes under management ensures that we operate in line with best practice in governance.

Healthcare is always a sensitive issue and often in the news – how do you see Discovery Health’s role in South Africa?

Healthcare is a highly emotional issue all over the world. It is a lightning rod, attracting high levels of political and social attention. Discovery Health, by virtue of its size and prominence, is also a natural “lightning rod” in our healthcare system, and for many, Discovery Health is almost synonymous with private healthcare in general. Together with the trustees of our schemes under management, we recognise the huge responsibility that goes along with the accountability for the healthcare cover for nearly 2.7 million people, and our significant impact on all stakeholders in the private healthcare system.

This role means that we have several critical responsibilities. We must ensure that the schemes under our management provide excellent health cover at affordable premiums and that we work closely with doctors, hospitals, pharmaceutical companies and other stakeholders in the interests of our members, for their own sustainability and that of the broader healthcare system. It is also our responsibility to work closely with policymakers at all levels in the interests of the development of the NHI and the broader national healthcare system.

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Lastly, we hope to see much greater collaboration and connection between the private and public healthcare systems.
Governments and private healthcare systems around the world are fighting an increasingly intense and complex battle to maintain the fragile balance between quality, access and the cost of healthcare. Most healthcare systems face a common set of challenges that relentlessly drive costs upwards faster than general inflation, making it even harder to provide access to the high quality healthcare that society understandably demands. South Africa is no exception to these global trends, although our problems are more urgent and severe due to the deep and unacceptable inequity in our healthcare system, which reflects the wider inequalities in our society.

Around the world, the highly charged debates around healthcare costs often encourage the search for single causes and culprits to blame. The current heated debate in our own environment has focused largely on whether rising healthcare inflation should be blamed on the tariffs charged by hospitals and doctors, or alternatively, on higher utilisation due to the ageing and disease burden of the population. In reality, there is extensive evidence, both internationally and in our own system, that high healthcare inflation results from a number of interacting factors, including tariffs and other supply-side factors, as well as powerful demand-side factors which continuously drive up utilisation of healthcare services.

On the supply side, South Africa is confronting a number of challenges we share with most global healthcare systems. These include the explosion of powerful new medicines and technologies, which often provide huge improvements in survival rates and quality of life, but which come onto the market at dramatically higher prices than the older technologies they are replacing. These trends are clearly illustrated by the costs of treating cancer. Total oncology spend for DHMS increased 17% from 2010 to 2011 (R872 million to R1.02 million). The combination of higher treatment costs and higher rates of cancer incidence has doubled the cost of cancer treatment for the Discovery Health Medical Scheme over the past three years.

In addition to these common global trends, South Africa faces a number of unique supply-side cost drivers as well. There is no doubt that healthcare prices are a part of the story. In our healthcare system, hospital and doctor tariff increases are closely correlated with CPI increases, which have been relatively high over the past several years. The underlying market dynamics also contribute to tariff inflation, with a serious and growing shortage of specialists, and some areas of market concentration in the supply of various services. Even more important than tariffs, however, are two fundamental features of our private healthcare delivery system: the fee-for-service payment system, and the fragmented structure in which doctors, hospitals and all other providers work in silos, with almost no coordination between them. There is conclusive international evidence that both of these features of our healthcare system contribute to rising healthcare costs. Fee-for-service payments encourage healthcare service providers to optimise billing behaviour to maximise income; and fragmented, uncoordinated healthcare systems lead to more waste and higher costs than in more integrated, team-based healthcare systems.

On the demand side, South Africa faces similar, if not more severe demographic challenges than many other countries, including longer life expectancy, an ageing population, and a rapidly increasing chronic disease burden, driven by increases in diseases of lifestyle and cancer. Each of these factors leads to significant increases in the utilisation of healthcare services each year, compounding the impact of the tariff increases noted above.

In addition to confronting these powerful global factors that drive demand for healthcare services, South Africa’s private healthcare system faces some unique demand-side challenges which add fuel to the inflation fire. Our medical scheme legislation is laudably egalitarian. It is based on open enrolment, and community rating – medical schemes must accept all applicants regardless of age and health status, and must charge the same premium for all members in each option, regardless of health status or age. While these laws are common in many health insurance systems around the world, and are highly effective in protecting individuals against discrimination based on their health risks, they are almost universally implemented in conjunction with a legal mandate for all eligible individuals to take out health insurance. South Africa is unique in enforcing open enrolment and community rating, but allowing scheme membership to remain voluntary. This unbalanced arrangement leads to a significant problem of “adverse selection" (or anti-selection) against medical schemes. Adverse selection is when the young and healthy join a scheme only when they believe they will really need healthcare, and when new joiners join lower benefit options and “buy up” to higher plans only if they
become ill. These factors contribute significantly to healthcare inflation by driving high annual increases in the usage of services by the average scheme member, and medical schemes are increasingly losing out on the surplus funds generated by the young and healthy, which they desperately need to fund the higher claims of the elderly and the sick, further driving up medical scheme premiums.

How do these various supply- and demand-side factors stack up in contributing to medical inflation? Discovery Health data shows that over the past five years, claims have increased at 12% above CPI. CPI has contributed 50% to the annual inflation rate. If we examine the make-up of the differential between CPI and the total inflation rate, we see that tariffs account for 20%, the demand-side factors 30%, and supply-side factors 30%. This analysis hopefully demonstrates that the causes of high medical inflation rates are complex and interrelated, and that it is inaccurate and unhelpful to look for a single cause or culprit to blame.

Given that we do understand the various drivers of healthcare inflation, what can be done to “bend the cost curve” and to slow down these inflation rates to some extent? We believe that there are a number of important measures that can and must be taken:

- The proposed Competition Inquiry is an excellent idea, which we support strongly. It will bring a large amount of new information into the debate in a transparent and accessible way, and this will lay the groundwork for a much more informed and constructive debate.
- On the supply side, we need concerted action from funders, hospital groups and doctors to implement several critical reforms. These should include a shift away from fee-for-service towards risk-sharing payment systems that better align incentives for efficiency and quality of care. Equally importantly, they should also include a shift away from the current fragmented delivery system, with every practice in its own silo, towards integrated healthcare teams, more integration between health professionals and hospitals, and better coordination and sharing of vital clinical information across the healthcare system. We also need a shift away from general private hospitals towards much more efficient hospital delivery models, including high-volume day surgery centres, and specialised units using lean production approaches. Finally, we urgently need a framework in which health professionals and funders can meet in an organised setting to agree on new coding schemes and tariffs that can meet the needs of our doctors, while ensuring that their services remain affordable to the members of medical schemes.
- On the demand side, medical schemes and employers need to invest much more heavily in scientific wellness approaches which address the explosion of chronic disease. It is critical that our policymakers work with industry stakeholders to review and modify parts of the regulatory environment for medical schemes, which is driving severe adverse selection patterns, and hence high medical inflation.

South Africa is truly blessed with a world-class private healthcare system. It is a national asset, with outstanding doctors, nurses and hospitals. It has the capacity to contribute hugely to the success of the National Health Insurance system. While medical inflation is a serious and urgent problem, we believe that its causes are well understood, as are the solutions. With suitable goodwill and cooperation between government and all stakeholders, it is possible to both moderate inflation rates, and to ensure that the private sector becomes a vital and contributing participant in the emergence of a truly national healthcare system that can benefit all South Africans.
Dr Lisa Frigati is a paediatrician who received a 2012 Discovery Foundation Sub-Specialist Award to study further in Paediatric Infectious Diseases at the University of Stellenbosch and Tygerberg Hospital.
Dr Phindile Gina, a medical registrar at Groote Schuur Hospital, is one of the 27 recipients of a Discovery Foundation grant in 2012. She is doing research on TB diagnostic tools.

The Discovery Foundation was set up in 2006 to invest R150 million by 2016 in the training of an additional 300 medical specialists for South Africa. This investment aims to support government in building and improving the healthcare system. Through a series of awards and grants we aim to strengthen South Africa’s specialist healthcare skills and the public healthcare system.

Dr Phindile Gina, a medical registrar at Groote Schuur Hospital, is one of the 27 recipients of a Discovery Foundation grant in 2012. She is doing research on TB diagnostic tools.
The ratio of doctors to patients shows huge disparities across the provinces:

- The Eastern Cape has just over half the density of health professionals per 10 000 people compared to that of Gauteng and the Western Cape.
- Generally more medical practitioners per 10 000 people work in the private sector than in the public sector.

### FACTS and FIGURES about SOUTH AFRICA'S HEALTHCARE SYSTEM

**Undersupply of South African doctors**

<table>
<thead>
<tr>
<th>Country</th>
<th>Doctors per 10 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>5.5</td>
</tr>
<tr>
<td>Russia</td>
<td>17.4</td>
</tr>
<tr>
<td>Brazil</td>
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<tr>
<td>Australia</td>
<td>10</td>
</tr>
</tbody>
</table>

**Medical graduates per 10 000 population per annum**

<table>
<thead>
<tr>
<th>Country</th>
<th>Medical graduates per 10 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>0.26</td>
</tr>
<tr>
<td>Russia</td>
<td>0.68</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.88</td>
</tr>
<tr>
<td>India</td>
<td>0.18</td>
</tr>
<tr>
<td>UK</td>
<td>0.86</td>
</tr>
<tr>
<td>Australia</td>
<td>0.86</td>
</tr>
<tr>
<td>Germany</td>
<td>0.85</td>
</tr>
<tr>
<td>USA</td>
<td>0.63</td>
</tr>
<tr>
<td>France</td>
<td>0.59</td>
</tr>
</tbody>
</table>

**Imbalance in healthcare in South Africa**

<table>
<thead>
<tr>
<th>Rural areas</th>
<th>Rural population</th>
<th>Doctors in rural areas</th>
<th>Nurses in rural areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural areas</td>
<td>43.6%</td>
<td>12.0%</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

**Doctor/patient ratio**

<table>
<thead>
<tr>
<th>Province</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Cape</td>
<td>4.52</td>
<td>5.67</td>
<td>7.64</td>
</tr>
<tr>
<td>Gauteng</td>
<td>4.02</td>
<td>5.23</td>
<td>7.25</td>
</tr>
<tr>
<td>Free State</td>
<td>3.1</td>
<td>3.04</td>
<td>6.14</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>2.97</td>
<td>4.69</td>
<td>7.66</td>
</tr>
<tr>
<td>North-West</td>
<td>2.37</td>
<td>2.32</td>
<td>4.69</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>3.16</td>
<td>2.77</td>
<td>5.93</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>1.97</td>
<td>4.13</td>
<td>6.1</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>2.97</td>
<td>2.53</td>
<td>5.5</td>
</tr>
<tr>
<td>Limpopo</td>
<td>2.07</td>
<td>2.68</td>
<td>4.75</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.07</td>
<td>2.68</td>
<td>4.75</td>
</tr>
</tbody>
</table>

The ratio of doctors to patients shows huge disparities across the provinces:

- The Eastern Cape has just over half the density of health professionals per 10 000 people compared to that of Gauteng and the Western Cape.
- Generally more medical practitioners per 10 000 people work in the private sector than in the public sector.

Of the 1 200 medical students graduating annually, only about 35 end up working in rural areas over the long term.
Performance reviews for 2012

DISCOVERY LIFE

DISCOVERY LIFE’S UNIQUE INTEGRATED OPERATING MODEL

Discovery Life’s unique operating model leverages Vitality to deliver an upfront integrator premium discount. We use dynamic underwriting to accurately price members’ risk. Integration and engagement in Vitality have resulted in powerful outcomes in terms of low lapse levels and better claims experience. Policyholders who manage their health and wellness reduce their risk and therefore the long-term liabilities for Discovery Life. This enables us to generate surplus assets which can be paid back to policyholders who manage their health. The Discovery Life PayBack benefit allows policyholders to build a financial asset in their life assurance policy.

Key facts:

- Initial discounts of up to 32% by integrating Discovery Life, Health, Vitality and DiscoveryCard
- 18% cheaper premium for the integrated Classic LIFE plan than the average competitor
- The number of Vitality members with a LIFE Plan has increased to over 257,000 members with 93% engaged and 25% highly engaged in Vitality
- We have paid over R270 million in PayBacks with a further R550 million vesting over the next two years.

SERVICING SUPPORT FOR FINANCIAL ADVISERS

The high levels of adoption of mobile and iPad technology in South Africa and globally present important opportunities for insurers to be innovative about the servicing experience. During the past year, we developed the SmartAdviser iPad application that enables a quicker and simpler servicing experience for financial advisers. This application allows the adviser to quickly and effortlessly identify, request and submit servicing quotes within minutes. It uses intelligent and integrated database mining to deliver functionality that helps advisers to:

- View all their clients’ information
- See a pre-defined range of upgrade and cross-sell opportunities that are available for each client
- Request servicing opportunities
- Receive the quote immediately
- Get clients to sign their quote electronically
- Submit the quote immediately for activation.

SmartCPD is another application that allows financial advisers to manage their Continuous Professional Development (CPD) points as required by the FAIS Fit and Proper requirements. It helps advisers to access FSB-accredited events, keep track of CPD points and stay up to date with industry news.
A recent survey by PricewaterhouseCoopers on the emerging and strategic issues in the South African insurance industry highlighted the key strengths, weaknesses, opportunities and challenges believed to be shaping the future of this industry. Changing regulatory requirements, capital management, changing demographics, consumer behaviour, the increased uptake of and receptivity to internet and mobile technology as well as the ability to innovate, were all identified as important factors that impact the insurance industry.

An ongoing trend is that of underinsurance as highlighted by a 2010 ASISA study. Consumers in South Africa remain vastly underinsured for life-changing circumstances. Within this operating environment, Discovery Life continued to build on its successful business model of providing innovative products that meet people’s needs and address critical issues in society while giving people more value through Vitality. **During the year under review, Discovery Life grew normalised operating profit by 14% to R1 819 million, and new business Annualised Premium Income by 8% to R1 749 million. The value of in-force business increased significantly from R10 592 million to R12 358 million.**

**OVERVIEW OF DISCOVERY LIFE**

- **Normalised Operating Profit**: 14%
  - Increased from R1 591 million to R1 819 million

- **New Business**: 8%
  - Grew from R1 620 million to R1 749 million

- **In-Force Business**: R12 358 million
  - Increased value from R10 592 million

**Our performance in 2012**

- We increased the value of **in-force business** from R10 592 million to R12 358 million

- **Normalised operating profit** increased by 14% from R1 591 million to R1 819 million

- New business grew by 8% from R1 620 million to R1 749 million

- New products were launched in March to address the issue of underinsurance in South Africa

- **Discovery Life ranked as the top life risk products** provider by the industry in PwC survey
12.5 MILLION INCOME EARNERS between the ages of 16 and 65 are underinsured by R18.4 trillion

ASISA Actuarial Gap Study, 2010

Underinsurance in South Africa
After consulting with several of our financial advisers we found that the biggest concern for their clients was that they had insufficient cover due to inherent affordability constraints. The Actuarial Gap Study undertaken by True South Actuaries in collaboration with the Association for Savings and Investment South Africa (ASISA) in 2010, echoed the concern of underinsurance. The study highlighted the extent to which South Africans are underinsured in case of a life-changing event and put the gap between actual and required cover at R18.4 trillion.

The insurance gap is a measure of the difference between the amount of cover someone needs and the cover they actually have

<table>
<thead>
<tr>
<th>Death insurance need</th>
<th>Disability insurance need</th>
</tr>
</thead>
<tbody>
<tr>
<td>38% Actual cover R4 426 billion</td>
<td>40% Actual cover R7 577 billion</td>
</tr>
<tr>
<td>62% Insurance gap R7 257 billion</td>
<td>60% Insurance gap R11 137 billion</td>
</tr>
</tbody>
</table>

The insurance gap – R11 683 billion
The insurance gap – R18 714 billion

Address the trend of underinsurance in South Africa through innovative product design
An ongoing priority for Discovery Life is to focus our product development to address the issue of underinsurance by leveraging the efficiencies within our products, thereby allowing consumers to access additional cover on an efficient basis. Our product innovation has evolved from the launch of the Cover Integrator and Financial Integrator in 2008 and 2009 respectively to the CoverBooster special offer in March this year. The Integrator benefits have been very successful in assisting clients to take up 79% more cover on average. Whereas the Cover Integrator and Financial Integrator give consumers the opportunity to increase their LIFE FUND at an average premium saving, the CoverBooster provides a client with 32% additional life cover for free for a period of three years. After three years, clients can buy this cover free of underwriting at a reduced rate, based on their Vitality status. The introduction of the CoverBooster benefit has helped bridge the gap in a meaningful way while still maintaining affordability for clients.

During the year, we continued developing products that allow for substantial increases in benefits linked to the LIFE FUND at no additional cost. These enhancements include the Life CoverBooster, the Drive CoverBooster and the BenefitBooster:

- The Life CoverBooster produces an additional 32% life cover for three years at no additional cost
- The Drive CoverBooster increases the free life cover to 50% for five years for clients who have a reduced risk profile from driving safely
- The BenefitBooster dynamically increases cover by up to 40% on several ancillary benefits to bridge the insurance gap and provide a more efficient benefit structure.

Product development to leverage integration capability and opportunity across our businesses
Over the past 10 years, Discovery Life has built significant data and information on health, wellness, mortality and morbidity, and is therefore in a unique position to track the effect Vitality has on the health of the risk pool. Our morbidity data shows that the more engaged clients are in the programme, the less likely they are to claim. Highly
engaged members, as reflected by Silver, Gold and Diamond Vitality status, have 50% less claims than non-Vitality members. The power of Vitality to impact morbidity and mortality presents a unique opportunity to integrate benefits and provide more value to clients.

Vitality has also been a key strategic asset in enabling Discovery Life’s dynamic underwriting model. Traditionally, the underwriting curve followed factors such as gender, age and occupation. The reality is that people’s health behaviour influences their risk far more than static risk factors. Discovery Life’s unique dynamic underwriting model takes into account the impact lifestyle factors such as smoking, level of exercise, diet, alcohol consumption, blood pressure and cholesterol have on risk. Natural causes account for 70% of deaths, with motor vehicle accidents responsible for 15% of deaths. Vitality’s high-quality data enables us to price risk more appropriately based on a client’s behaviour. Research shows that 70% of factors that influence healthcare costs are related to modifiable health risks which are understood and addressed by Vitality.

3 Reduce lapses further to be in line with long-term assumptions

Vitality has further been proven to help reduce lapse rates. Members who are more engaged in the programme are less likely to lapse their policy. This strategy has been highly successful as Discovery Life’s lapse rate is now below the long-term assumptions.

4 Prepare for the implementation of the Solvency Assessment and Management framework

The Solvency Assessment and Management (SAM) initiative of the Financial Services Board (FSB) aims to align the regulation of the South African insurance industry with the principles of the International Association of Insurance Supervisors (IAIS) and European Solvency II developments, adapted to South African circumstances.

Discovery Life is actively involved in various industry committees responsible for formulating and calibrating the SAM requirements, thereby ensuring we can provide input into requirements material to us.

In 2011 Discovery conducted a detailed gap analysis based on the SAM requirements. Assisted by independent consultants, Discovery Life’s management team debated in a series of workshops the implications of the requirements for our business and the activities and development necessary to close the gaps. The result of this process is a set of tangible outcomes, delivery of which is being managed by the Group’s SAM Project Management Office.

Discovery participated in the FSB’s qualitative review of our readiness to meet the Pillar 2 requirements of SAM. We have also taken part in the second Quantitative Impact Study (QIS2) to be submitted to the FSB after internal and external review.

KEY STRATEGIES FOR 2013

- Continue developing innovative solutions for consumers, including the lower income market, to address the trend of underinsurance in South Africa
- Manage financial risk for Discovery
- Improve servicing of the existing book while maximising expense efficiencies
Everyone needs life assurance cover, regardless of their age or level of health, as well as access to sound financial advice, products and services. It is best to be prepared for any unexpected eventualities as the costs associated with these random, high-risk events can be financially catastrophic.

Discovery’s core purpose of making people healthier and enhancing and protecting their lives extends to all other areas of our business, and our clients’ lives in terms of financial security, especially regarding life assurance cover and financial investment plans. Discovery Life and Discovery Invest are able to play a role in ensuring our clients have peace of mind when it comes to their financial security and well-being. We achieve this by giving our clients access to a broad range of innovative products and services which enhances their savings, protects them from the financial impact of a life-changing event and ensures they have sufficient financial cover for themselves and their families.

The harsh reality is that many South Africans underestimate the value of being insured and are not saving enough for the future, including for retirement. The Association for Savings and Investment South Africa (ASSA) conducted an Insurance Gap study in 2010 which revealed that almost 12.5 million income-earning South Africans between the ages of 16 and 65 are underinsured for life cover by over R18 trillion.

The insurance gap measures the difference between the amount of cover someone needs and the cover they actually have. The ASSA study found that for death insurance, South Africans are underinsured by R7.3 trillion, and for disability, by R11.1 trillion.

To help clients bridge this gap and receive the cover they need, Discovery Life and Discovery Invest continuously create innovative new products and services. Earlier this year we launched new products that give clients the opportunity to access additional life assurance cover more efficiently and get more value from their investments. Our products and services are in line with our integrated operating model, which maximises our clients’ cover and gives them value for their money. The new Discovery Life products are the Life CoverBooster, Drive CoverBooster and the BenefitBooster. The Life CoverBooster gives our clients 32% extra free life cover for three years, and the Drive CoverBooster gives clients who already have both Vitalitydrive and the Life CoverBooster, 50% free additional life cover for five years. The BenefitBooster provides clients who have an accelerated Capital Disability Benefit amount that is at least 70% of their LIFE FUND, with an additional 40% free life cover for the duration of the full benefit term. These products give our clients incentives to obtain sufficient life cover and ensure that they are adequately covered.

It is well known that South Africans are not good at saving for the future. Research shows that many people often withdraw their retirement annuity early in order to meet financial obligations, or are simply saving too little. It is estimated that only 6% of South Africans will be able to retire comfortably, and this is alarming, as it means the majority of South Africans will not be able to afford their current lifestyle. To help our clients plan better for their future retirement and help them save for future financial stability, Discovery Invest has innovated new offerings which give them certainty, efficiency and value. We applied the features of our Classic Investment Plan to our retirement annuity and preservation packages. The new products are the Classic Retirement Plan, the Classic Preserver Plans and the Discovery Invest Classic Offshore Endowment Plan. A new benefit is the Dividends Tax Funder, while a new service, the FUNDamentals series, is available to all clients and potential investors. All these products, benefits and services aim to maximise our clients’ fund performance and investment time horizon, as well as minimise the effect of tax on their investment.

The Classic Retirement Plan and Classic Preserver Plans, with their unique, built-in features, give our clients peace of mind about their financial security in their retirement years. These products boost our clients’ investments and guarantee 100% of the highest unit price reached during their investment upon their retirement, death or in the event of becoming disabled. They also refund a portion of tax which the client is liable for, up to certain limits upon retirement, and provide a measure of protection should the fund underperform. Dividends tax was introduced earlier this year to align South Africa with international tax practice, and Discovery Invest introduced the Dividends Tax Funder as one of the Classic Flexible Investment Plan benefits. The only investment of its kind that effectively refunds clients’ dividends tax incurred, the Tax Funder Benefit pays out clients’ dividends tax at the end of every five-year period.

Until recently, South African residents who wanted to invest funds offshore had to apply for tax clearance on any investment amounts they wanted to take offshore. As of this year, South Africans are allowed to invest up to R1 million directly offshore each year without applying for tax clearance. The Discovery Invest Classic Offshore Endowment Plan enables our clients to access a wide range of offshore funds. This plan has a number of features that provide our clients with access to offshore funds, and enables improved performance, efficiency and protection of their investments, even during uncertain periods, and mitigates risk.

Since not everyone is an expert at understanding the stock market and the significance of investing, Discovery Invest created the FUNDamentals series which is aimed at consumer education. Available online, it aims to explain investment principles to clients and would-be investors in an easy-to-understand way, and strives to encourage a culture of saving among South Africans. By showing people that it isn’t too difficult to save, and offering incentives to save through our innovative products and services, Discovery Life and Discovery Invest are helping to give our clients financial security, enhance their financial understanding and protect their assets. In this way, our clients know they will have a safety net to fall back on during tough times, and a legacy to pass on to future generations.
IMPACT AND REACH OF DISCOVERY LIFE

There are more than 670,000 lives assured by Discovery Life, and we have paid more than R6.5 billion in claims to date. In 2011:

- Our benefit claims amounted to more than R1.4 billion
- Discovery Life paid out R119 million through the Integrated PayBack benefit. R270 million has been paid out since the start of the benefit. This is projected to grow to over R800 million by 2014 and R1.4 billion by 2016
- Discovery Life paid out R28 million in health dividends and has accumulated R1.9 billion in health funds since the inception of the Health Plan Protector
- The Global Education Protector currently covers the education costs of 2,707 children.
Performance reviews for 2012
OVERVIEW OF DISCOVERY INVEST

South Africa traditionally has a poor savings and investment culture with few people willing to save for the financial impact and risk associated with an unforeseen event or retirement. We have one of the world’s lowest household savings rates (0.2% of GDP) with retirement savings constituting nearly 60%. South Africa’s gross domestic savings has fluctuated between 14% and 16% – a figure that is mainly the result of the contribution of corporates. This compares poorly to the level of savings of our fellow BRICS countries. Low levels of disposable income – in turn because of a consumerist culture and high indebtedness – are the main reason why a poor savings culture persists. Innovation is needed to change the tide on our collective attitude towards saving. Discovery Invest’s philosophy since the company’s inception in 2007 has been to offer innovative products that not only address gaps in the market, but offer investors additional value and incentives to save.

Discovery Invest’s performance has been exceptional. Since 2007, our assets under management grew from R10 billion in the first 34 months to more than R25 billion currently. This growth over a short period of time is testament to the market receptivity and support for Discovery Invest’s innovation and performance. Today, Discovery Invest is the largest writer of endowment policies in South Africa with a 27% market share. During the year under review, Discovery Invest grew normalised operating profit by 50% to R151 million. The value of in-force business increased by 46% to R1 714 million.

The margins of new business written during the period, although slightly down from the previous period, were excellent at 2.7%. This is still above the market norm and a result of Discovery Invest’s unique value proposition.
A critical issue for Discovery Invest is to ensure continued product innovation that delivers solutions to the trend of poor savings and investment in South Africa. The value proposition and performance of Discovery Invest are important, especially given the broader economic environment locally and globally. Over the past four years, we have made significant progress in the South African retail investment market. This can be attributed to a combination of an innovative product range, exceptional fund performance and the benefits of integration. Our material issues relate to the key strategy of ensuring Discovery Invest provides meaningful value and excellent performance for investors.

Product innovation to encourage a culture of savings and investment

We introduced the Classic Plan range in early 2011 and since its launch, investments in this product have grown to R597 300 192 by June 2012. It was developed to maximise investment growth in terms of performance, protection and efficiency. A unique set of features enhances investments by offering tax efficiency, improved performance and protection. During the year, we did considerable work to apply the features of the Classic Flexible Investment Plan to retirement annuities and preservation funds. The new Classic Retirement Plan and Classic Preserver Plans maximise growth for investors by focusing on fund performance, protecting investment returns against the impact of disability and minimising tax on investment growth or on withdrawal.

The Discovery Escalator Fund range is one of the innovative products that provides unique protection for investors. The Discovery Escalator Equity Fund has been successful in limiting the effect of the 2008 market crash and has delivered a return of 37.3% since November 2007, and an outperformance of 9.98% over the FTSE/JSE All Share Index. Over this period, this fund delivered a guaranteed price and return of 10.28% on each unit.
Use the power of integration to give investors additional value

Discovery Invest is able to offer investors additional value through integration with Discovery Life and Vitality. The Investment Integrator and Annuity Integrator give investors the opportunity to reduce fees and increase benefits by capitalising on the tax and health assets of Discovery Life and Vitality. To date, over R79 million in benefits have been paid to investors through the As and When Investment Integrator that refunds up to 100% of all fees on the Endowment Plan. By using integration to generate more value for investors, we aim to encourage a culture of savings.

Enhance our off-shore product offering

Investing offshore does not only improve investors’ portfolio diversification, but also allows them to benefit from industries and companies not listed on the JSE. By investing offshore, an investor can gain exposure to different industries, as well as to different economic cycles. However, it comes with its own set of challenges that can deter investors from making this choice. Investors typically need the expertise of fund managers in these foreign markets as well as the necessary expertise to manage the risk related to currency fluctuations. For this reason we have developed an innovative offshore product aimed at improving performance, efficiency and protection and addresses the needs of investors wishing to invest offshore.

KEY STRATEGIES FOR 2013

• Continued product innovation to offer a comprehensive range of investment products to consumers
• Continue to build scale with a focus on achieving cost efficiencies

Some MARKET FACTS:

The importance of performance protection in volatile markets

Over the past five years, international markets have been lacklustre, a consequence of the global credit crisis and continuing debt problems in Europe. This has resulted in the MSCI World Index giving a total return of -20.3% in USD over the five years ending 31 December 2011.

Over the same period, the Rand depreciated by 14%, offsetting some of the poor returns received on offshore investments in USD. For the past five years, the Rand appreciated against the USD by 41.1%. This resulted in a decrease in the returns earned on investment when measured in Rand terms.

In a volatile investment market, performance protection can prove valuable, especially in providing the confidence to remain invested in tough times.