Performance reviews for 2012

DISCOVERY VITALITY
In the current economic climate, the cost of healthcare contributes to the financial and economic problems facing many countries, including South Africa. In our country, around 8% of gross domestic product is spent on healthcare. Factors driving high healthcare costs include advances in new medical technologies, newer and more expensive medicine and the increasing cost burden of chronic diseases of lifestyle which are brought about by lifestyle risks.

Against this background, Vitality has been successful in developing groundbreaking techniques that encourage people to adopt healthier lifestyles. Over the past 15 years, we have incorporated evidenced-based interventions drawn from a range of disciplines such as medicine, dietetics, sports science, psychology and behavioural economics and developed a programme that uses rewards to change behaviour. The programme works on the premise that it is essential to change ingrained behaviour, such as unhealthy diet and lack of exercise, to achieve better health outcomes over the long term. It achieves this through meaningful environmental and structural changes. The HealthyFood and gym benefits, for example, have lowered the financial barriers to a healthier lifestyle.

Vitality today has close to four million clients on three continents, with Vitality recently being introduced to the Chinese market. It is the longest-standing wellness programme of its kind in the world, and has been internationally recognised for its positive impact on healthcare costs.

OVERVIEW OF DISCOVERY VITALITY

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The material issues for Vitality during the past year centre around developing the Vitality model further to achieve long-term behaviour change in complex areas such as unhealthy eating and a sedentary lifestyle. Sustained behaviour change, as reflected in higher engagement levels with Vitality, result in better mortality and morbidity across Discovery’s businesses – a key element for sustainability and future growth.

1. Leverage the Vitality model further to encourage long-term behaviour change

During the year we published a number of research studies that examined the role of the gym benefit and HealthyFood benefit in changing complex and entrenched behaviour that contributes greatly to illness and disability globally. The studies found that gym membership and usage increase the longer members remain on Vitality and the likelihood of hospital admissions decreases with increased Vitality engagement.

Engagement levels in Vitality during the past year have continued to improve, further supporting research findings that engagement in fitness-related activities increases with continued membership of an incentives-based wellness programme. These findings provide an opportunity for us to apply these learnings to the current model. During the next year, we will focus on giving members additional opportunities to engage in healthier lifestyles by leveraging evolving fitness tracking technology. The points structure will be refined to encourage sustained participation in physical activity.

2. Enhance the clinical efficacy and thought leadership of Vitality

Several research studies are currently underway to enhance the clinical efficacy of Vitality. The research includes studies on incentives, healthy eating, preventive screening and decision-making in improving healthy behaviour. The Physical Activity Incentive Study is a collaboration of leading academics of the University of Pennsylvania, Carnegie Mellon University and the University of Cape Town. This study aims to measure the effectiveness of different types of incentives on physical activity behaviour.

Vitality has extended its research partnerships to include prominent health economist Dr Roland Sturm of the RAND Corporation, a leading healthcare research institute in the USA, as well as renowned behavioural economist Professor Dan Ariely of Duke University in the USA.
KEY STRATEGIES FOR 2013

• Continue to develop the clinical efficacy of the Vitality programme by using the latest thinking on behavioural economics to incentivise healthier lifestyles

• Introduce powerful new benefits that enhance the lives of our members

• Use evolving technology and social media to increase engagement and expand the scope of fitness-related activities available to members

• Build on the benefits of the DiscoveryCard as a further incentive to members to live healthier lives and advance their Vitality status

3 Enhance the rewards offering on Vitality and DiscoveryCard

During the year we worked on enhancing the rewards offering on Vitality and DiscoveryCard to encourage higher levels of engagement. These enhancements, which were introduced to the market in September this year, include additional Vitality and DiscoveryCard partners, access to a unique cellular offering and a premium HealthyFood offering.

4 An interactive wellness platform for members

To embrace the current social trends, Vitality has introduced an interactive wellness platform that gives members access to wellness tools and expert advice. The social functionality allows members to create profiles, have online friends and participate in groups. The main features of the site are weekly expert blogs and articles on fitness, healthy eating, pregnancy, parenting and living with chronic conditions; the ability to upload workouts using Garmin, Nike+ and Polar; as well as a diabetes tracker to better assist with the management of this condition. Mobile applications allow members to track activity and nutrition on the go. Collectively this functionality is called LivingVitality and can be accessed through www.discovery.co.za.

Go to www.livingvitality.discovery.co.za/lv/
with GIDON NOVICK, new CEO of Discovery Vitality

You took over the reins as CEO of Discovery Vitality in South Africa from Alan Pollard in July this year, with Alan’s new role as CEO of The Vitality Group in the USA. What are some of the key strategies and initiatives you will focus on during the next year?

Firstly, Alan’s shoes are tough to fill. He and the team have built an incredibly robust programme that is unique in the world. The objective of Discovery Vitality remains to make people healthier, improve their lives and lower the costs to society which are associated with morbidity and mortality. In the year ahead we will introduce exciting new benefits which will not only create greater incentives to our members to improve their health, but also provide more avenues for them to make healthier choices. We will also utilise evolving technology to expand the ways in which members track their physical activity and interact with us.

With Vitality in its 15th year, the programme seems to have become more relevant in the wellness context. What do you believe are the key value drivers for Vitality?

With the increasing burden of disease and healthcare costs increasing at well above inflation, an effective wellness intervention is essential. Vitality is having a positive impact on individuals by assisting them in leading a healthier lifestyle. As a result of incentivising these healthier choices, Vitality has a positive financial impact on the Discovery Health Medical Scheme.

Vitality is attracting a lot of attention from academics. How important is scientific research for Vitality, and how do you incorporate the learnings into the programme?

Health and wellness is a dynamic field. From Vitality’s perspective it is important for us to engage with leading academics who are able to objectively scrutinise our programme and in doing so, help us refine what we are doing. From the academics’ perspective, we have a very powerful database that can help contribute to academic studies and be utilised for research and for insights into policies. We have received two grants from the National Institute of Health, a USA government funding agency, which is interested in understanding how we increase preventive care, and get more people to buy healthy foods – two key areas of USA and global policy. We are also doing research with Professor Dan Ariely and several other academics locally and abroad.
The Discovery Healthy Company Index, the largest workplace wellness survey in corporate South Africa, was developed as a joint initiative between Discovery Vitality, the University of the Witwatersrand, the University of Cape Town, and Professor Ron Goetzel of Emory University and Thomson Reuters. The first survey of its kind in South Africa, and in its second year in 2012, it aims to assess and understand the health status of South African employees.

The 2012 survey results show that South African companies are on the right track for promoting good health. However, there are several health concerns that employees are grappling with – high blood pressure and high cholesterol being the most prevalent chronic conditions of lifestyle. The results also show that 92% of employees have a Vitality Age higher than their actual age. On average, employees have a Vitality Age that is 6.4 years older than their actual age.

The Discovery Healthy Company Index is starting to provide an excellent data set to benchmark and track key health issues over time, while evaluating which initiatives are having a positive impact on employees’ health and companies’ productivity.

Some interesting 2012 survey findings:

- 74% of employees do not eat enough fruit and vegetables every day, compared to 82% in 2011
- 39% of employees smoke, compared to 38% in 2011
- 68% of employees do not meet recommended physical activity guidelines
- Only 47% of employees completed all recommended health screenings in the past 12 months
- 43% of employees are at an unhealthy weight (high body mass index)
- 76% of companies indicated that they had onsite wellness programmes, compared to 50% in 2011
- Only 9% of employees strongly agree with the statement: “My company cares about my health and wellbeing”.

Hatch emerged as the healthiest large company in the country. The professional services firm received the award for combining the health of employees (measured using the Vitality Age risk factors) with the health-related facilities and programmes that the company provides to their employees overall. Vital Health Foods was named the healthiest medium-sized company, and BSG (Africa), a business and software solutions delivery company and last year’s overall winner, won the healthiest small company award.

“If the saying ‘healthy body, healthy mind’ is true, which at BSG we certainly believe it is, then it should be clear that healthy and happy employees lead to increased levels of productivity…”

Sunday Times, Business Times Money & Careers, 30 September 2012

“The research showed that by giving people information about their risk factors for poor health, they become motivated to become healthier.”

The Times, 27 August 2012
Discovery and 702 Talk Radio host the world’s biggest walking event – the Discovery 702 Walk The Talk. With over 50 000 walkers, the Walk The Talk is bigger than the Comrades, London and Boston marathons. It’s a fun event for the whole family that promotes the benefits of an active and healthy lifestyle.
Why is wellness important for a financial services company like Discovery?

Discovery’s core purpose is to make people healthier and enhance and protect their lives. This doesn’t only make sense from a social perspective, but clearly is an important part of our business. We know that prevention is critical in the broader healthcare sector. If we can get people to lead a healthier lifestyle, we can make significant reductions in healthcare costs, and have a positive impact on the economy. The World Economic Forum conducted a global survey of CEOs’ business concerns, and chronic diseases of lifestyle were ranked in the top five major concerns that could have an impact on businesses’ bottom line. It is estimated that 50% to 60% of deaths could be avoided by better lifestyle choices. We no longer need to debate the importance for countries, businesses, or individuals; we need to focus on developing innovative solutions to curbing our burden of disease. Vitality, which underpins all our products, combines clinical and actuarial knowledge in a science-based wellness programme that delivers positive results for our business and for individuals. Several research papers that have been published in international peer-reviewed journals, support the impact of Vitality.

What are the latest trends and thinking in wellness?

Wellness is a rapidly evolving area of healthcare. We continue to debate what the most effective diet is, how much and what type of exercise to do, as well as the right screening for an individual or population. Those debates will continue, but underlying all this science, is the science of behaviour change. How do we get people to change complex behaviours? How do we lower the barriers to healthy choices, and how do we create an environment that is more conducive to healthy choices. We need to better understand the environment that people are in, and understanding the principles of behavioural economics and being able to apply these principles into a robust programme, are important trends in wellness. Behavioural economics is an emerging discipline and I believe we are only starting to understand the complexities in decision-making and changing ingrained behaviour such as unhealthy eating. The question is how to change often set behaviours over the long-term.

How do you create a culture of wellness in broader society?

As a business that is focused on wellness, we can have a positive impact on society beyond Discovery Vitality members. The health of a nation is inextricably linked to the wealth of a nation. To help create a society able to make healthier choices, we need to look at environments such as schools and the workplace. We currently offer health promotion initiatives in schools. This is based on the school curriculum and helps teachers provide physical as well as nutrition education. We also work with school coaches to help develop a love for sport among kids. From a workplace perspective, the Discovery Healthy Company Index has helped raise awareness of health risks among employers and share best-practice initiatives. Another area in which we are promoting a healthy and active lifestyle in broader society is through our various sponsorships. The Discovery 702 Walk the Talk, Discovery East Coast Radio Big Walk and the Discovery Cape Times Big Walk are three of the biggest annual mass sports events in South Africa with more than 100 000 people taking part.
Chronic lifestyle diseases and road accidents are on the increase worldwide. The World Health Organization estimates that without preventive measures, chronic lifestyle diseases and road accidents will be the top causes of all deaths worldwide by 2020, accounting for 75% of all deaths. Two million people will lose their lives in road accidents each year.

One way to address this proactively is by encouraging people to change their behaviour to reflect better, healthier lifestyle choices and safer driving behaviour.

Discovery is passionate about making people healthier, and enhancing and protecting their lives. We achieve this through employing the principles of behavioural economics into a robust programme that incentivises and rewards people for changing their behaviour. We recognise that changing behaviour – particularly ingrained behaviours such as unhealthy eating and a lack of physical activity – is easier said than done, and that it requires more than just mere information and prescription. Encouraging people to change their behaviour requires implementing meaningful environmental or structural changes that are within their reach and easy to maintain.

This is what Vitality, Discovery’s internationally renowned, science-based wellness programme, offers our clients, empowering them to switch from unhealthy behaviour patterns to more positive, healthier behaviour choices.

Vitality embodies how the principles of behavioural economics theory have successfully been incorporated into Discovery’s various product offerings to drive positive behavioural change. Essentially a status-based wellness programme rooted in scientific research, the Vitality model gives clients rich health and financial benefits and rewards through points, discounts, and cash back incentives.

One of Vitality’s cornerstone offerings to clients is its gym benefit. The benefit gives gym membership discounts to Discovery Vitality clients who join a Planet Fitness or Virgin Active gym, and clients can then earn points when exercising.
rewards. There are over 1.6 million Vitality members in South Africa. Highly engaged Discovery Health members who are Vitality members spend less on hospital and healthcare costs than those who are not on Vitality. The Vitality model has been successfully integrated throughout Discovery’s businesses, underpinning our various products and enabling us to offer clients more value through integration.

Vitality helps to ensure people are aware of their behaviour, and counters people’s over-optimism that they are healthier than they think they are and drive better than they think they do. This year’s Healthy Company Index survey, which measures how healthy corporate South Africa is, showed that 69% of employees believed they were in good or excellent health. The reality was that they were not that healthy, as they had four or more health risk factors. Furthermore, 92% of these employees had a Vitality Age that was on average 6.4 years higher than their actual age. Vitality Age, an actuarially-based measure of the impact of poor lifestyle choices on a person’s health; also illustrates the link between unhealthy lifestyles and hospital costs. Research showed that employees who had a higher Vitality Age had 27% more visits to the doctor, 55% more days in hospital and lost 72% more days in their lives due to illness or injury compared to those whose Vitality Age was lower than their actual age. When applied to driving behaviour, Discovery Insure found that 81% of their clients believed they were excellent drivers. The reality was sobering: only 10% were excellent drivers, 58% moderately good drivers, and 32% poor drivers.

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Discovery Insure, which launched over a year ago, is a testament to how Discovery is able to adapt the Vitality model to its different products. South Africa has some of the world’s worst roads and one of the world’s highest road accident-related death rates, with about 14 000 lives lost each year. Discovery Insure data shows that over 75% of young adult deaths in 2011 were caused by motor vehicle accidents. Furthermore, the data indicates that 60% of these accidents, which were caused by risky driving behaviour, could have been prevented.

Being a good driver means different things to different people. It may mean being accident-free for a number of years, not talking or texting on the phone while driving, and remaining within the speed limit. Discovery Insure, which has over 13 000 policyholders, understands that good driving is much more than these stand-alone elements, and involves a combination of factors: driver performance, knowledge and awareness, and vehicle condition and roadworthiness.

These aspects of driving behaviour are measured through the DQ-Track programme, which makes use of motor telematics and is a scientifically and actuarially robust measure of good driving. The DQ-Track, which to date has over 172 million km of data, analyses driving indicators such as speed, acceleration, braking and cornering. These analyses enable Discovery Insure to measure how well our clients drive. It gives them monthly feedback on their driving and suggestions for improving their driving behaviour. The more a client engages with improving driving behaviour, the greater the rewards. The Vitalitydrive benefit, for instance, gives clients up to 50% cash back in fuel spend from BP, and data shows that Discovery Insure clients are becoming more aware of their behaviour and driving better.

Discovery is committed to building a healthier society through sustainable, positive behaviour change. With Vitality, clients are able to see how changing their behaviour impacts powerfully upon their lives. They become healthier, drive better and more safely, and reap the rewards, improving the quality of their lives.
At the end of 2011, the UK had 3,971,000 subscribers to private medical insurance.

Corporate self-insured schemes accounted for three-quarters of total market demand with 2,978,000 subscribers.

The total PMI sector made an estimated operating profit of between £140 and £160 million in 2011.

Total claims paid out fell by 3.6% resulting in a slight improvement in the industry loss ratio to around 77%.
OVERVIEW OF PRUHEALTH

The UK still faces a challenging economic climate with only small improvements in consumer confidence. Following two years of recession in the UK, in which the number of health cover subscribers (private medical insurance and corporate self-insured schemes) declined by 8%, the market stabilised during last year to reach close to four million subscribers. The NHS is increasingly under cost and quality pressures, which provide an opportunity for PMI providers to expand the private healthcare market.

Against this background, PruHealth maintained its position as the fourth-largest PMI provider with a 10% market share. A key focus for us during the year was to consolidate the improvements made during the past few years across all key areas, such as pursuing higher margins, quality new business, customer retention and loss ratio. In addition, we invested in enhancing the product proposition and risk management of PruHealth, and also made a decision to invest significantly in an enhanced and flexible claims, administration and online system for PruHealth. While this will result in significant benefits from a product and service perspective, the short-term implications meant an extension of the Transitional Services Agreement with Standard Life Group and a cost duplication of approximately £8 million. Despite this, PruHealth increased normalised operating profit by 28% to R91 million. More importantly, we have done significant work on the value drivers in the business that positions us strongly for future growth.

Our performance in 2012

Normalised operating profit increased 28% to R91 million

Excellent performance on key drivers of loss ratio and lapse rate

Membership stabilised at 560 000

Focus on quality new business

High take up of Vitality Plus across all markets and channels
OUR KEY STRATEGIES FOR 2013

- Enhance margins, quality and profitability through a continued focus on writing high-quality individual and SME business
- Maintain our leadership position in integrated health and wellness solutions, including the continued roll-out of Vitality to the Standard Life Healthcare member base as well as a continued focus on enhancing the Vitality offering
- Extend the PruHealth product proposition through the launch of highly differentiated benefits that expand the PMI landscape

OUR MATERIAL ISSUES DURING THE YEAR

1. **A focus on long-term value drivers in the business**

During the year we continued our focus on the key drivers of long-term value in the business. These include the loss ratio, writing quality new business, client retention strategies, Vitality take up and operating efficiencies. PMI products in the UK market tend to be viewed as short-term, single-year contracts, which lead to the inherent risk of lapsation in the system. Vitality has played an important role in enabling PruHealth to build equity into the overall product structure, thereby enhancing both the loss ratio and lapse rate of the book. PruHealth’s loss ratio improved to below the industry average of 77%, while we achieved a 20% reduction in the lapse rate by the second half of the year.

We also focused on getting the new business mix right between market segments (individual, SME and corporate) in order to maximise profitability. Margins on corporate business is much lower than in the SME and individual market segments and we are pleased with our progress in increasing our new business from these two segments.

2. **Enhance the member experience**

During the year we enhanced our Vitality offering with the launch of a new range of partners. These include adidas miCoach, the National Trust, Sweatshop, Sainsbury’s Pharmacy and Sainsbury’s Diets, as well as a number of major holiday operators with the Vitality Travel Club in partnership with Thomas Cook and Imagine Cruising. We have also enhanced functionality on our website to drive higher engagement in Vitality. These include Personal Pathways that empowers members to set personalised health goals.

3. **Extend wellness to the broader UK society**

In line with our core purpose of making people healthier and enhancing and protecting their lives, we started initiatives during the year to extend the wellness message to the broader UK society. We launched Britain’s Healthiest Company in partnership with Mercer, a leading employee benefits consultancy and The Telegraph, the UK’s second-largest broadsheet newspaper. This initiative aims to find and celebrate the UK’s best companies in terms of employee wellness. Like its South African counterpart, the Discovery Healthy Company Index, Britain’s Healthiest Company will survey employers and employees to gain a better understanding of the biggest health risks facing the UK.

We have also announced a three-year partnership with the National Trust to sponsor its Walking Festival. The festival was created to encourage more people to take up walking, regardless of their age or ability. Through the sponsorship of this event, we hope to convey the benefits of a healthy and active lifestyle.

Britain’s Healthiest Company is the first initiative of its kind in the UK that seeks to understand how healthy Britain’s workers are. With absenteeism costing UK companies over £32 billion every year, improving employee health can have a positive impact on companies’ bottom line.
A focus on long-term value drivers for PruHealth

Absolute focus on quality: loss ratio and retention

12-month rolling loss ratio

![Graph showing loss ratio and retention](image)

- **2010**: 100%
- **2011**: 82%
- **2012**: 79%

Loss ratio below industry standard

Lapse rate by loss ratio band

- **High**: 359%
- **Medium**: 251%
- **Low**: 193%

28% reduction in lapse rate between H1 2012 and H2 2012

Impact of the underwriting approach: lapse and mortality experience

6-month lapse experience relative to assumption

![Graph showing lapse experience](image)

- 6 monthly lapse experience
- Lapse assumption 2011
- Original long-term assumption (2012+)
- New long-term assumption (2012+)

Absolute focus on quality: new business by channel

New business

- **2010**: 409%
- **2011**: 609%
- **2012**: 592%

Market

- **2011**: 23%
- **2012**: 31%

Annual mortality experience variance

- **Jun-04**: 26
- **Jun-05**: 68
- **Jun-06**: 81
- **Jun-07**: 85
- **Jun-08**: 175
- **Jun-09**: 141
- **Jun-10**: 51
- **Jun-11**: 194

Integrated Annual Report 2012
The UK economy is currently experiencing a recession impacted strongly by the Eurozone crisis. In July this year, the International Monetary Fund downgraded its forecasts for the UK economy based on lower growth expectations for 2013. The falling housing market, unemployment and slow growth in the UK contribute to more difficult economic conditions. The fall in average household incomes over the past number of years means less disposable income for consumers. In terms of protection cover, UK consumers are underinsured by an estimated £2.4 trillion. This amounts to around £100 000 per person, with the amount of underinsurance greatest among single parents, couples with children and those younger than 35. Affordability is rated as the number one reason why consumers do not buy protection cover.

Although the level of underinsurance provides insurers with the opportunity to address an important need, the UK protection market is highly commoditised with low levels of innovation and real value-add to consumers. Within this environment, PruProtect has performed exceptionally well. Modelled on Discovery Life’s innovative and consumer-focused approach to life insurance, PruProtect’s business model centres on product innovation, the value of quality financial advice and promoting wellness to reduce mortality and morbidity risk.

To close the protection gap, the market needs to make significant changes in its approach to protection products. There is a need to offer new and attractive benefits that appeal to a wider audience, as well as a need to support the value of financial advice as products become more innovative and differentiated. Ultimately, the product value needs to improve by focusing product design on the benefits it delivers and not price alone.

The value proposition of PruProtect has resulted in a turnaround financial performance from an operating loss of R86 million last year to a normalised operating profit of R209 million. Our new business market share in the independent broker market increased to over 9% in the second half of 2012. The emerging scale and strong growth traction can be attributed to a range of factors, including an investment in the franchise channel that increased our scale to 13 franchises across the UK, decreasing lapse rates, better loss ratios and claims experience as well as strong new business growth of 42% to £37.3 million at an annualised margin of 15.1%.

Normalised operating profit of R209 million, compared to an operating loss of R86 million in the previous period

Strong new business with excellent receptivity to new product launch

Higher-profitability new business mix across benefit types

Excellent claims experience

Strong development of franchise distribution channels

PruProtect received several awards for its product design and innovation

Increased market share from 5% to 8.7% in the financial year
THE IMPORTANT ISSUES DURING THE PAST YEAR

1. Ensure consumers have sufficient protection through continued product innovation

Our benefit design aims to provide consumers with the necessary protection for every life stage, ensuring that they are protected when they need it most. A Hannover Re survey in 2010 found that PruProtect customers are up to 76% more likely to receive a payout for a severe illness compared to the average industry payout, based on the fact that our plans cover more conditions than traditional critical illness policies.

The effect of this benefit structure is evident from the fact that 10% of our claims to date are unique and do not fall within the range of typical illnesses covered.

Since our launch in the UK in 2008 we have continued a rigorous cycle of product development that has seen the launch of Vitality, the Health Cover Optimiser and Education Cover. Our product innovation has been recognised externally through various awards including the 2012 Innovation Award from Protection Review and the 2012 Defaqto Award for our critical illness and income protection products.

We also understand that affordability is a key issue that prevents many consumers from adequately protecting their financial future. In response to this need, we introduced a special offer that enables consumers to buy 30% free life cover for three years with the option of extending the amount of cover after the three years. The Cover Booster product has been highly successful in South Africa and in the UK market. It addresses three key challenges:

- It helps to close the protection gap by providing 30% free life cover for three years
- It encourages take-up of serious illness cover as the additional life cover offers a minimum £20 000 serious illness cover
- It rewards lower risk over time as consumers can buy the same life cover at a discounted rate after three years, provided they engage in their health through Vitality.

2. Improve the mortality and morbidity risk for PruProtect through Vitality

Vitality is a unique differentiator for Discovery across all our businesses, including PruProtect. Not only does Vitality offer additional value to consumers, but it also assists in improving the mortality and morbidity risk in the protection business.

While the impact on long-term health costs is positive, the immediate reward for clients is lower pricing made possible by more accurate risk rating. Through Vitality we have access to health and wellness information that enables more accurate and dynamic risk assessment. This in turns facilitates more accurate risk rating up-front.

During the year under review, we focused on enhancing the Vitality offering. A broader rewards offering with more partners has resulted in a higher take-up of Vitality Plus.

3. Capitalise on changing market trends and opportunities

Changing market trends resulting from the impact of legislation, such as the Retail Distribution Review (RDR), the EU Gender Directive and the EU Solvency II Directive on Life Assurance Tax, provide strategic opportunities for us. The RDR aims to protect consumers in terms of the transparency of costs and quality of financial advice for investment products. Independent financial advisers in the investment space will incur a loss of earnings due to changes in the cost of advice structures. Under the RDR, policyholders will be given the option of moving to an upfront fee basis as opposed to a commission basis. There are currently 3 800 independent financial advisers that write more than £200 000 of investments and pension business in Annual Premium Equivalent (APE) terms. Currently only 600 of these advisers support PruProtect products. An opportunity exists to leverage our current distribution footprint and develop innovative products and service propositions aligned to the wealth management advice process.

The EU Gender Directive impacts the protection industry in that it prohibits the ability to utilise gender as a risk factor when pricing insurance products. This results in price movements for males and females depending on the type of product. Currently, women who are at the same age as men pay less for the same level of cover. The EU directive ensures a gender neutral market position with a levelling of premiums. For insurers who are not able to price risk more accurately based on actual health status, significant adjustments will be needed. PruProtect is well positioned to address the impact of this legislation.

4. Invest in our distribution footprint

During the year we continued our investment in our distribution channel, resulting in record new business levels from our franchises. We have developed 13 active franchises and we are currently recruiting three more franchises. A total of 119 business consultants service these franchises in addition to a team of 15 network and key account managers. In light of the expected impact of the RDR, our investment in face-to-face distribution network capabilities will support the anticipated changing financial advice landscape.

OUR KEY STRATEGIES FOR 2013

- Support holistic financial planning through continued growth in the franchise footprint while increasing market share in the independent financial adviser (IFA) space
- Access opportunities to further strengthen distribution through leveraging and developing strategic partnerships with networks, banks and fund platforms
- Leverage Vitality capabilities to further differentiate product offerings
- Continued provision of differentiated product and service propositions that meet consumers’ needs in a changing regulatory landscape
Vitality addresses the key health risks associated with high morbidity and mortality:

UP TO 40% of cancers can be prevented through exercising regularly and eating sensibly.\(^1\)

Up to 5 portions of fruit and vegetables a day could reduce the risk of deaths from chronic diseases by UP TO 20%.\(^2\)

Physically inactive people have almost double the risk of dying from coronary heart disease than active people.\(^3\)


### Key profit drivers: quality of new business

#### Business mix by premium type: 2011 versus 2012

- **19%** Decreasing
- **22.20%** Indexed
- **58.80%** Level
- **21.90%** Increasing
- **2011**
- **17.90%**
- **60.20%**
- **2012**

#### Average premium

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<tr>
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### Quality: new business generation by channel

#### Production by channel: 2011

- **24%** Telephone Account Managers
- **44%** Franchise
- **9%** Corporate
- **28%** Direct to Market

#### Production by channel: 2012

- **14%** Telephone Account Managers
- **67%** Franchise
- **14%** Corporate
- **6%** Direct to Market
Performence reviews for 2012

QUICK FACTS ABOUT DISCOVERY INSURE

- Over 21 500 drivers tracked in real-time through Discovery Insure
- **311 100 fuel transactions discounted** (7.7 million litres of fuel purchased)
- **R10 million in Vitalitydrive rewards paid to date**
- 50% effective reduction in premium for highly engaged drivers
- **R3.3 billion worth of vehicles** comprehensively insured
- 172 million kilometres of behavioural data analysed
- **R8 billion in household and personal cover provided**
Technological advances continue to present opportunities for insurers to enhance their service offering, improve underwriting processes and even improve business models. Over the past few years advances in telematics technology has led to its mainstream use as a premium rating factor. Market research done by ABIresearch™ estimates that 90 million insurance users worldwide will subscribe to telematics technology by 2017. The way telematics is used in the short-term insurance industry has evolved from pay-as-you-drive models to pay-how-you-drive models.

Apart from providing insurers with the opportunity to refine pricing methodologies, telematics also provides a significant opportunity for insurers to understand the underlying driver behaviour that leads to an increased risk of motor vehicle accidents. Discovery Insure has leveraged the advances in telematics technology with the behavioural expertise and experience of Vitality to better understand the risk factors that impact driver behaviour. Given that South Africa’s roads are some of the most dangerous in the world with the highest fatalities per capita among the BRICS countries, our ability to impact behaviour positively has the potential to make a long-term change in society.

Launched in June 2011, Discovery Insure provides comprehensive coverage, underpinned by an understanding of the link between driver behaviour and risk as well as the means to improve outcomes. In its first trading year, Discovery Insure gained good traction in the market with R239 million in new Annual Premium Income written despite its distribution channels being fairly new to short-term insurance. By the end of the financial year, our new business market share increased to a monthly run rate of 9%.

**Our performance in 2012**

- **Number of clients increased to 13 343**
- New business written of R239 million
- Personal lines market share of 9% at the current new business run rate
- Vitalitydrive successful in encouraging better driver behaviour: **20% improvement in indexed driver performance score**
- New benefit enhancements introduced to encourage better driving and reward clients for changing behaviour
- High claims payout ratio of 98% reflects quality of comprehensive product offering
**Unique insights into the causes of motor vehicle accidents**

Type of risky behaviour displayed before an accident

- Late night driving: 53%
- Braking: 37%
- Speeding: 32%
- Accelerating: 16%
- Cornering: 5%

**Measurable behaviours are directly correlated with accident risk**

Indexed loss ratios by Vitalitydrive status: claims frequency by DQ points and status

- Base: 100%
- Neutral: 74%
- Engaged: 54%
- Advanced: 31%

**Tangible improvement in driver behaviour**

(Month 1 = 100%) Indexed driver performer score

- Month 1: 100%
- Month 2: 102%
- Month 3: 106%
- Month 4: 113%
- Month 5: 117%
- Month 6: 120%

**THE IMPORTANT ISSUES DURING THE PAST YEAR**

1. **Leverage the unique Vitalitydrive capability to develop in-depth understanding of behaviours that lead to motor vehicle accidents**

   The traditional model of underwriting based on variables such as gender and age has become outdated as it does not allow for a sufficient understanding of the underlying behavioural factors leading to the high rate of accidents on our roads. Furthermore, by treating all clients within a class rating the same, traditional rating methods tend to “reward” poor drivers at the expense of good drivers. Using telematics technology has the ability to change this. In our first year of operation, we have started to gain an understanding of the underlying causes of motor vehicle accidents and the often preventable behaviour that increases this risk. Vitalitydrive data has shown that drivers display risky driving behaviour such as braking, speeding, accelerating and cornering 15 minutes or less before a serious accident. This type of behaviour can be prevented by increased awareness and incentives for better driving behaviour. The ability to measure and understand behaviour linked to an event gives us an important advantage to lower costs over the long-term through powerful financial incentives.

   → **Good driver behaviour is directly linked to fewer motor vehicle accidents and lower insurance costs. Our driver behavioural data as recorded through DQ-Track shows a strong correlation between individual driver behaviour and choices and the prevalence of motor vehicle accidents.**

2. **Enhance the product offering and Vitalitydrive benefits to encourage and reward better driver behaviour**

   During the first year of operation, Vitalitydrive has had a tangible impact on behaviour in three key areas: high engagement in driver awareness and vehicle safety activities, a substantial shift in day-to-day consumer choices and definite changes in driver behaviour as measured by driver scores.

   Drawing on the trends emerging from the first year of operation and our experience in behavioural economics, we refined the Discovery Insure product platform earlier in the year to achieve the following:
Restructure Vitalitydrive to simplify and enhance benefits
Fuel rewards have proven to be a powerful catalyst for behaviour change and are the most used and valuable incentive structure on the programme. The tiered incentive structure also serves as the primary mechanism to encourage increased vehicle safety through the Annual MultiPoint Check at Tiger Wheel & Tyre. During the year we worked on enhanced benefits for clients that simplify and improve fuel rewards. The simplified benefit also allows the maximum fuel rewards to be available to all clients. These enhancements were introduced and rolled out to clients from 1 August 2012.

We have also enhanced the Excess Funder Account benefit structure to help our clients build more insurance equity. The benefit is unique as it allows clients to use their fuel rewards to fund the excess on their car plan. Since inception, close to 3 000 policyholders have activated the Excess Funder option, with over R4 million in fuel rewards being paid into these accounts. The enhanced benefit that gives clients additional value by paying up to 10% of their premiums into the Excess Funder Account every month has been rolled out to clients from 1 August 2012.

Create targeted incentives to drive a step change in road safety among young adult drivers
Young adults (aged between 18 and 25) account for a disproportionately high frequency of motor vehicle accidents and accident-related deaths: 75% of young adult deaths are caused by motor vehicle accidents. We found a strong correlation between high-risk young adult driver behaviour and the significantly higher rate of accidents among young adults. For every 100 accidents experienced by drivers in the 60 to 65-year-old age band, young adults experience 150. The societal costs associated with these accidents rates are substantial.

One in three hospitalisations for motor vehicle accidents involve young adults, more than double the frequency of other age groups.
Motor vehicle accidents account for approximately 75% of deaths among young adults, and young adult deaths account for 54% of all deaths from motor vehicle accidents.
THE IMPORTANT ISSUES DURING THE PAST YEAR (continued)

Based on our experience over the past 12 months, young adults who commit to changing their behaviour have 33% less claims than those who do not change their behaviour. As a result we introduced the Young Adult Contract to encourage and reward young adults to improve their driving behaviour.

Enhance coverage across the product
During the year we introduced enhanced cover across the product range such as a broader range of cover for unspecified items, enhanced car hire cover and wider household contents cover.

Focus on enhancing the service experience for clients and advisers
Ensuring our clients have easy access to benefits and services is key to our performance. We measure and rate each client interaction to identify areas where we can improve our service offering. There are four important areas: new business, DQ-Track installations, claims processes and access to rewards and benefits. We have made good progress as reflected in some of our key metrics below:

- R8 million paid out in Vitalitydrive rewards
- R4 million held in Excess Funder Accounts to pay for car excesses
- Over R60 million paid out in claims
- 76% of stolen vehicles recovered by DQ-Track
- Over 20 000 DQ-Track installations
- Average client rating for DQ-Track installations: 9.2 out of 10
- 84% of new business applications finalised within four hours
- 96% of underwriting done within four hours.

A new innovation we introduced during the year is FastTrack claims, a benefit that ensures replacement of certain items within 24 hours in Gauteng or 48 hours in other metropolitan areas.

KEY STRATEGIES FOR 2013

- Grow our distribution channels by focusing on potential channels to distribute Discovery Insure, ongoing training and support, and using technology to make the sales process more effective
- A focus on supply-side innovations that add more value and seamless service for clients
- Introduce further safety enhancements that protect clients in high-risk situations

We have considerable experience in the field of behavioural economics and using this to drive positive behaviour change in society. Vitalitydrive draws on the expertise developed in Vitality to encourage better driving. Better driving means fewer accidents and safer roads for all South Africans, thereby having a positive impact on society. In South Africa, our road fatalities rate is much higher than other BRICS countries with 14 000 road fatalities every year (or 33 deaths per 100 000 people, which is 10 times higher than in the UK). Three in five road accidents are caused by risky behaviour that can be prevented. One in five accidents is caused by vehicles that are not roadworthy – again a factor that can be prevented by doing the necessary safety inspections.

Since the launch of Discovery Insure and Vitalitydrive in May 2011, we have collected and analysed 172 million kilometres of driver data. To date we have already seen a 20% improvement in the driver behaviour of over 13 000 policyholders, as measured by key metrics, including late night driving, acceleration, speeding, braking and cornering. Two in every five vehicles covered by Discovery Insure have had an Annual MultiPoint Check at Tiger Wheel & Tyre. One out of five people immediately took steps to improve their vehicle safety after the check.
Rising healthcare expenses rate as a top business challenge for both large employers and mid-sized businesses. Faced with increasing rates of obesity, diabetes and other chronic diseases, employees and employers are both seeking ways to proactively manage rapidly growing healthcare costs. In fact, according to The Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group and the US Department of Commerce, Bureau of Economic Analysis, per capita national health expenditures have increased 30% between 1990 and 2010, and by 2015 spending on health-related issues will surge to $10,535 per person – a 26.5% increase over 2010.

As a result, many businesses have been forced to control costs through workforce reductions, offering fewer health plans to employees and shifting more costs to employees. According to a survey conducted in May 2012 among mid-sized business owners and senior executives by the ADP Research Institute, a specialised group within ADP, the number one concern of mid-sized business owners in this economy is the cost of healthcare coverage, with two out of five respondents rating this concern as “extreme.”

Like their larger peers, mid-sized employers show an interest in preventive strategies, such as wellness programmes, to help mitigate health expenses. According to a wellness study conducted by the ADP Research Institute, 44% of mid-sized employers offer wellness programmes today. Vitality as a standalone health and wellness solution provides an opportunity for smaller businesses to educate, assist and motivate employees to change their health behaviour and long-term health outcomes.
Healthcare in the USA continues to be a highly politicised issue with healthcare reform debate focusing on issues such as increasing coverage, costs and the social burden of healthcare, funding approaches and the role of government. Today, 35% of the American adult population is considered obese with a continuous rise in the incidence of obesity, diabetes and other chronic diseases. Poorer health and lifestyles have a severe impact on healthcare spend: in the USA it is more than double the average spend per capita than that of OECD countries – an unsustainable path for individuals, employers and the USA economy.

Despite the healthcare debate continuing, consensus is that a greater focus is needed on preventive care to help curb the impact of chronic diseases of lifestyle. Healthcare funders are changing their product offerings to include wellness and preventive aspects that challenge employees to take responsibility for their health. The government also recognises the need to broaden access to wellness. The Affordable Care Act in the USA, which was signed into law by President Obama in 2010, endorses the use of rewards to incentivise better health. **Wellness programmes are becoming mainstream as a strategy to curb costs, even in smaller companies. Today, 44% of mid-sized companies offer wellness programmes.** In this environment, Vitality has a strong opportunity to make a difference in society and create value for all stakeholders.

**Vitality has been recognised as a global thought leader in wellness. It is the world’s longest-standing wellness programme with more than 3.5 million members worldwide.** It has been scientifically proven to help reduce healthcare costs over the long term while also improving people’s quality of health. It has also been proven to help address complex health behaviour such as healthy eating and exercise. During the year, Vitality published a five-year, retrospective longitudinal analysis of the association between membership of Vitality and participation in fitness-related activities of the programme. The study found that the longer a member remained on Vitality, the more gym membership and usage increased. The research shows that Vitality is effective in reducing the hospital admissions rate and length of stay for people who engage in the programme by between 10% and 15%. In the USA, we offer the programme as a stand-alone wellness solution to large corporates, and as an embedded product feature of Humana Inc, one of the largest providers of health and supplemental benefits in the USA.

**MEMBERSHIP**

1.8 million lives

**Our performance in 2012**

- **Vitality membership in the USA exceeds 1.8 million lives**
- Strategic partnership concluded with ADP Inc, a leading provider of employee benefits administration services
- Build-out and deployment of new engagement tools leading to pleasing levels of engagement
McKesson Corporation, one of our clients, was awarded a 2012 Best Employers for Healthy Lifestyles Gold Award. This series of awards is presented by the National Business Group on Health (NBGH), the USA’s only non-profit membership organisation of large employers devoted exclusively to finding innovative and forward-thinking solutions for essential healthcare issues. The awards are considered a proven standard for recognising exceptional employee wellness programmes and companies that are making health and wellness a top priority.

“Vitality offers a scalable program that emphasizes choices and flexibility, while providing us with verifiable data on employee participation and measured outcomes.”

Build solid relationships and partnerships with employee benefit consultants

During the year, Vitality had strong membership growth with members in the USA exceeding 1.8 million members. Humana/Vitality is currently integrated as part of Humana’s medical plan offerings for all its commercially insured and individual members. In respect of direct corporate sales, The Vitality Group is building solid relationships with large employee benefit consultants. In many cases, Vitality has been accredited as one of their preferred wellness solutions. During the year we announced a partnership with ADP Inc, one of the world’s largest providers of payroll and employee benefits administration solutions. Through this partnership we will launch ADP Vitality, a payroll integrated wellness solution tailored to mid-sized employers. ADP Inc provides us with wide distribution reach into the mid-sized employer market as well as the ability to administer varying employee health contributions by Vitality status.

Pleasing engagement levels in the Vitality programme

Vitality has developed a range of engagement tools aimed at driving behavioural health changes. As a result Vitality enjoys levels of engagement far in excess of the industry norm for corporate wellness programmes. Among The Vitality Group’s 10 largest clients who have been on the programme for the past year, completion of Health Risk Assessments was 67% with high levels of secondary activities thereafter.

**OUR MATERIAL ISSUES DURING THE PAST YEAR**

The important issues during the past year for The Vitality Group were to continue using the Vitality model to offer employer groups and employees a wellness solution that helps improve health and productivity over the long term. The emphasis is on encouraging behaviour change.

**KEY STRATEGIES FOR 2013**

- Drive engagement levels in Vitality
- Continued product development and innovation
- Leverage the thought leadership of Vitality in the USA market
- Build out social networking tools and further mobile device integration
Vitality empowers and activates people to change behaviour associated with health risks.

**Vitality: activities to raise awareness, increase understanding and empower participants to improve and maintain health**

**EDUCATION**
- Risk assessments
- Personalised online courses and materials
- First-aid and CPR certification

**PREVENTION**
- Pap smears and mammograms
- Prostate exams
- Childhood immunisations
- Flu shots
- Blood screenings

**FITNESS**
- Subsidised gym memberships
- Rewards for participation in sporting or fitness events
- Tracking through fitness devices

**HEALTHY LIVING**
- Smoking cessation programmes
- Weight reduction and management programmes
- Blood pressure, blood glucose and cholesterol level testing
- Maternity and disease management assistance

**POSITIVE INCENTIVES**
- Vitality approach driving high engagement across employee base

**Quality of life and workplace engagement**
- 70% of a Vitality customer’s employees agree that Vitality has helped them to live a healthy lifestyle.
- 46% specifically mentioned rewards as being a significant reason for the change.
- 76% say the programme makes them feel more valued as an employee.

**Risk-adjusted hospital admission costs for engaged vs not engaged**

P < 0.001 for all categories (incl overall result) except cancer where P < 0.01
Categorisation based on diagnosis-related groupers using ICD-10, CPF-4 and local procedural codes

**Healthcare costs**
- Vitality engaged members have 30% lower costs for kidney, respiratory, endocrine, nutritional and metabolic issues.
- Nearly 40% of Vitality engaged members’ costs for cancer were lower than those not engaged.
- Highly engaged participants can save an average of $184 in healthcare costs compared to not engaged participants.

**Hospital admissions from illnesses**
- Highly engaged Vitality participants had 35% less hospital admissions associated with cancer and mental illness than those not engaged.
- The same group had 20% less admissions due to endocrine, nutritional, metabolic disorders and kidney and urinary tract disorders.
PRIVATE HEALTHCARE IN CHINA

The Chinese healthcare system predominantly consists of a public healthcare system (Social Health Insurance system) and a smaller private health insurance market. The public healthcare system provides basic medical cover to 90% of the Chinese population and although coverage has increased due to a large financial commitment from the government, strict coverage caps and co-payments mean limited cover for consumers (around 50% of medical bills are covered by Social Health Insurance).

Private health insurance covers around 7% of the population and the market continues to grow. The products on offer are, however, limited with most product offerings focusing on supplemental hospitalisation insurance or severe disease insurance.

Chronic diseases of lifestyle and severe illnesses are becoming more prevalent. The World Health Organization estimates that non-communicable diseases such as cancer and diabetes account for 83% of all deaths. Incidences of cancer are expected to increase by 12% to 15% every year from 2010 to 2030. This translates to around 600,000 and one million new patients diagnosed with colorectal and lung cancer respectively each year. Most Chinese consumers do not have additional funds to pay for the treatment of these diseases, despite high levels of savings and support from government programmes. The Chinese government is aware of the gaps in cover and is continuously encouraging private health insurance and collaborations to support and supplement the public healthcare programme. This market environment provides an opportunity for private health insurance companies and specialty insurers to meet a critical consumer need.

There are many challenges facing insurance companies. Competition is strong, and mainly around price. Limited data remains a challenge for insurers to structure new products. The way the healthcare system is structured also encourages over-prescription, which makes it challenging for insurers to control the cost of treatment. Despite these challenges, insurances companies do have the prospect of bringing innovation, risk management, data and healthcare management expertise to the market.
OVERVIEW OF PING AN HEALTH

The Chinese market continues to present significant growth opportunities for companies across the world. Despite the difficult global economic conditions, China’s gross domestic product is expected to grow at an annual rate of around 7.9% over the next 10 years, compared to the USA which is expected to grow at 2.8% per year. An important future growth point for the Chinese economy is consumption which can be attributed to factors such as rapid urbanisation and government measures to improve social security and boost private consumption. China traditionally has a high savings culture which stems from concerns over how to pay for healthcare and retirement. Chinese consumers in urban areas are also becoming wealthier: per capita disposable income of urban consumers is expected to double by 2020. Chinese consumers are also increasingly concerned about their health and wellbeing – from the food they buy to healthcare products and the risk of having to pay for a severe illness. China’s ageing population and the higher incidence of chronic diseases of lifestyle, as well as an increasing awareness of insurance products, are expected to drive increased healthcare expenditure.

These market trends present a significant opportunity for Ping An Health to leverage the healthcare management expertise built up in Discovery Health, and the wellness and behavioural economics learnings of Vitality. Ping An Health, a subsidiary of Ping An Group in China, was established in 2005 and provides health insurance, accident insurance and other related services.

Ping An Health continues to make progress in building scale and capability to shape the commercial health insurance market in China. During the year, Ping An Health’s insurance premium income grew by 133%, with total lives of 560 000 and sales of R680 million.

Our performance in 2012

**Strong traction in the Chinese market with total lives of 560 000 and sales of R680 million**

**Third-largest writer of group high-end medical insurance**

**Introduction of Vitality to the Chinese market**
Our strategy in China with Ping An Health focuses on four key elements:

1. **Become the number one provider in the group high-end market**
   
   We have made excellent progress in the second half of the year in terms of corporate sales to the group high-end market, capturing significant market share. Achieving traction and scale in this market also enables us to focus on product development for other market areas.

2. **Roll out the comprehensive local Vitality programme to support the actuarial dynamics of the offering**

   We recently introduced a comprehensive Vitality offering that is tailored for the Chinese market. The programme is modelled on the Vitality approach of encouraging people to understand their health status and giving them the tools and rewards to make positive lifestyle changes. It includes check-up fitness assessments, as well as online assessments. Some of the partners include the Tesco supermarket chain where members can enjoy more Clubcard points for purchasing fruit and vegetables, as well as discounted gym membership. Reward partners include up to 20% off the cost of fuel purchases at Sinopec outlets and purchases at the 1 online store.

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### OUR MATERIAL ISSUES DURING THE YEAR

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### VITALITY in CHINA

- **Online assessments**
  - Up to 125 points

- **Check-ups and fitness assessments**
  - Up to 4,275 points for check-ups
  - Up to 625 points for non-smoking declaration
  - Up to 6,250 points for fitness assessments

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### Results from the Ping An Health Research Report*

- Chinese people are on average 8.2 years older – as measured by Vitality Age – than their real age
- The vast majority of people interviewed (90.9%) overestimate their health status by thinking they are healthier than they are while almost half are concerned about their future health
- While most worry about their health, few take actions to improve it
- Only 15% do regular exercise
- 26% follow an unhealthy diet

*Horizon Research Consultancy Group
At the time of introducing Vitality, Ping An Health also released the findings of a health survey conducted in partnership with leading Chinese consultancy Horizon Research Consultancy Group. The Ping An Health Research Report presented the findings of surveys done among 5,898 Chinese people in five cities, between the ages of 15 and 64. The survey findings show that although more Chinese people live in urban areas, they do not have the adequate knowledge or health awareness to address their health status and risks. There is also very little social motivation or pressure to change an unhealthy lifestyle. These findings provide valuable insights into the applicability of the Vitality model in the Chinese market.

Penetrate the individual mid-market by leveraging Ping An Life’s extensive 500,000-person agency force

Our focus is on developing a Vitality-enabled comprehensive health insurance product for the individual insurance market. This market, with its high levels of disposable income, presents a strategic opportunity for Ping An Health to introduce an innovative product design. To date, product development has progressed well and has been tested in consumer focus groups. The launch of products into the individual market is a key priority for Ping An Health in the next financial year.

Further development of operational and risk management capability, and intellectual property

During the year we made good progress in building the core health insurance infrastructure, including the development of a foundational actuarial and clinical risk management capability and the Discovery Health claims system. We will continue to expand this capability in the coming year.

KEY STRATEGIES FOR 2013

• Become the number one provider in the group high-end insurance market
• Roll out Vitality to the Ping An Health member base
• Focus on the individual market