

Discovery

UNAUDITED INTERIM RESULTS

and cash dividend declaration
for the six months ended
31 December 2019

SA COMPOSITE MODEL

UK COMPOSITE MODEL

PARTNER COMPOSITE MODEL



New business

+17%

to R11 116m

Normalised operating profit

-7%

to R3 551m

Normalised headline earnings

-11%

to R2 117m

+5% excluding DH take-on of new closed schemes and gross revenue for Vitality Group

2023 Ambition

Businesses

1. Insurgent
2. Significant engagement
3. Superior actuarial dynamics
4. Meeting complex consumer needs
5. Exceptional service



Financial and social impact

- Operating profit
- Profit growth
- Embedded value
- Value generated offshore
- Members reached

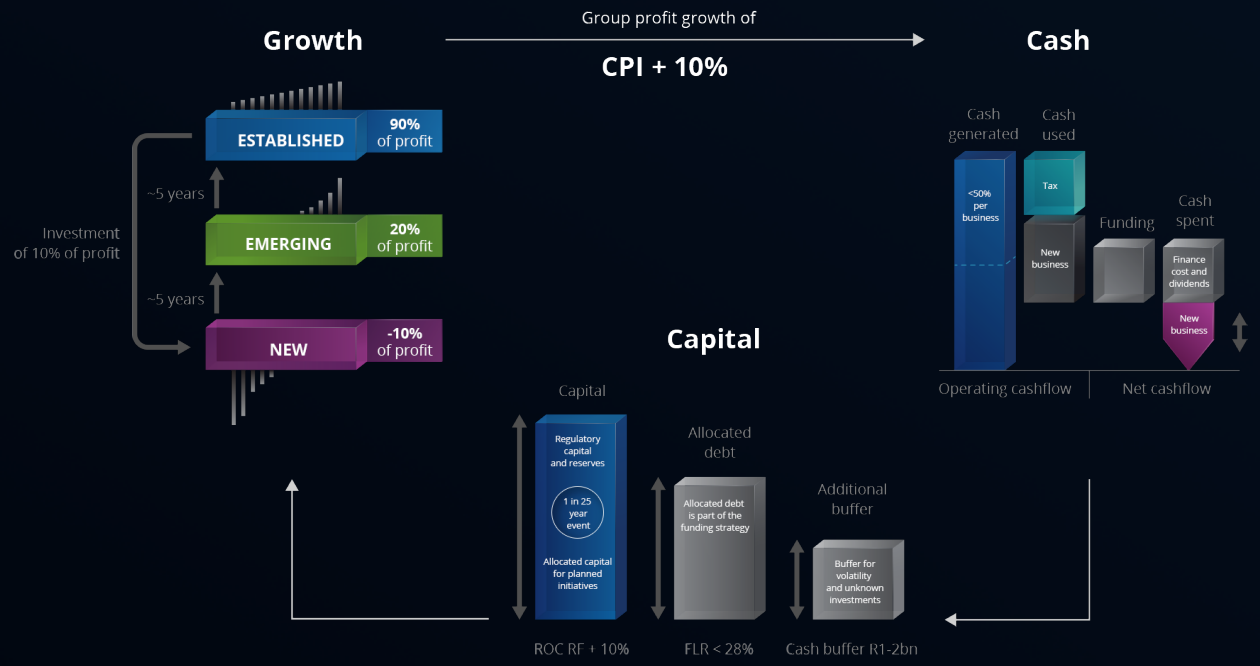
Foundation

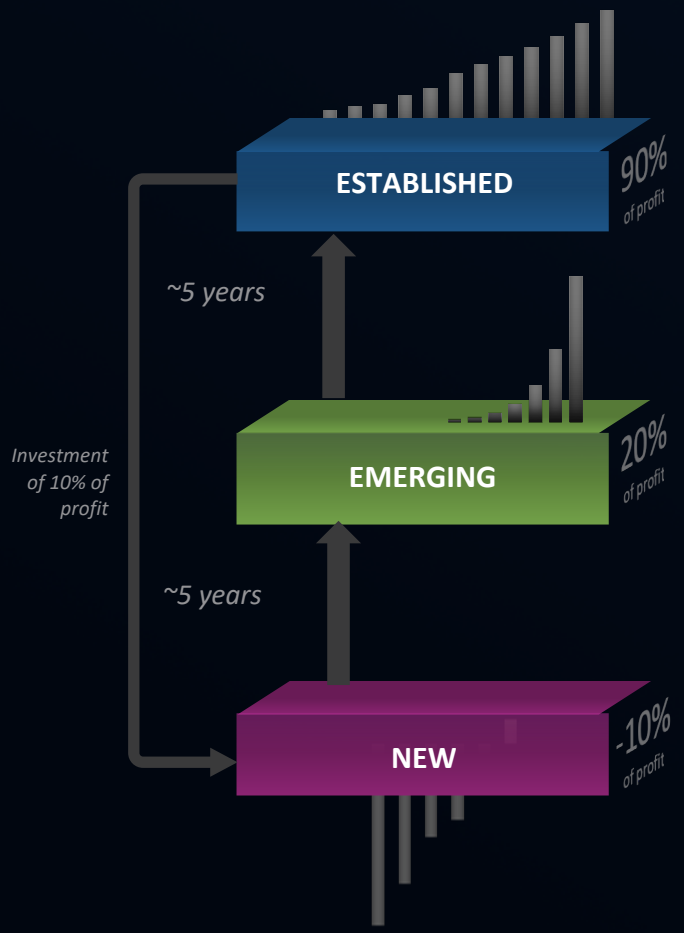
Purpose -> Values -> People

-> Brand -> Model -> Capabilities

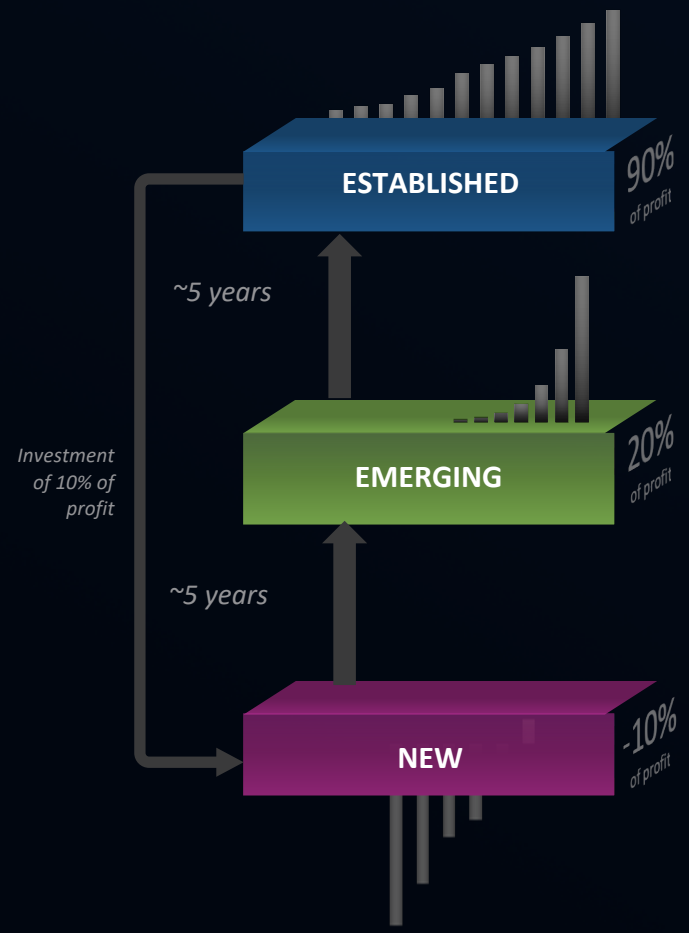
1

Financial impact





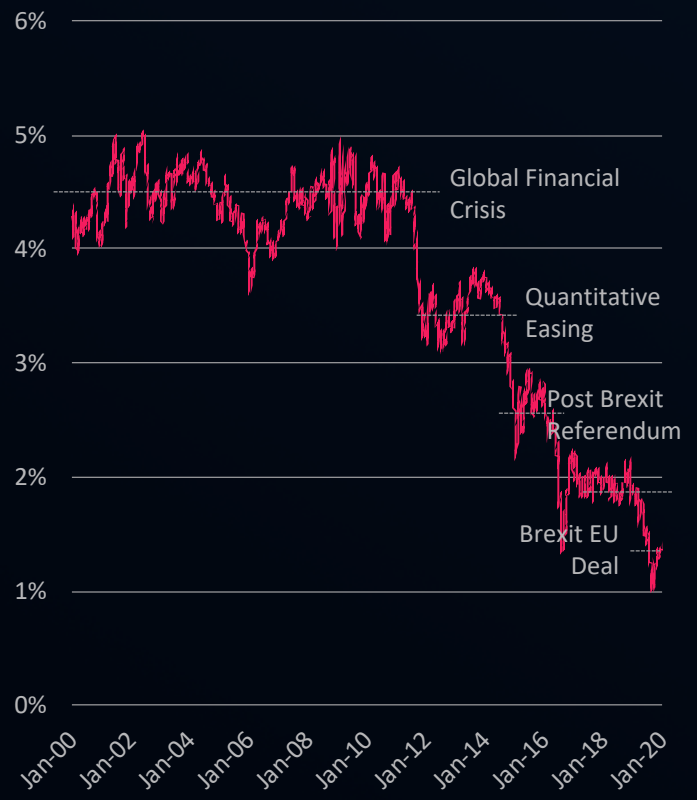
	ZAR	Operating profit R3.6bn -7%	New business R11.1bn +17%
ESTABLISHED BUSINESSES	Discovery Health	+8%	+26% Incl. new closed schemes
	Discovery Life	+25%	+2%
	Discovery Invest	+7%	-2%
	Vitality HEALTH INSURANCE	+11%	0%
	Vitality LIFE INSURANCE	-145%	+8%
EMERGING BUSINESS	Discovery Insure	+21%	+7%
	Vitality GROUP	+16%	+17%
	中国平安 PING AN	+467%	+28%
NEW	New businesses	+81%	+173%



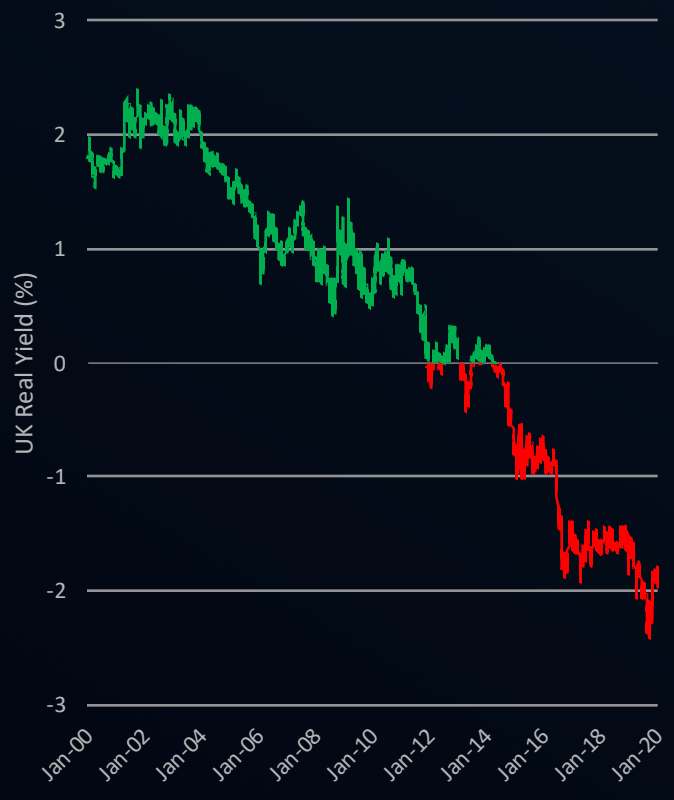
	ZAR	Operating profit R3.6bn -7%	New business R11.1bn +17%
ESTABLISHED BUSINESSES	Discovery Health	+8%	+26% Incl. new closed schemes
	Discovery Life	+25%	+2%
	Discovery Invest	+7%	-2%
	Vitality Health Insurance	+11%	0%
	Vitality Life Insurance	-145%	+8%
EMERGING BUSINESS	Discovery Insure	+21%	+7%
	Vitality Group	+16%	+17%
	中国平安 PING AN	+467%	+28%
NEW	New businesses	+81%	+173%

The UK was characterised by unprecedented interest rate volatility and uncertainty

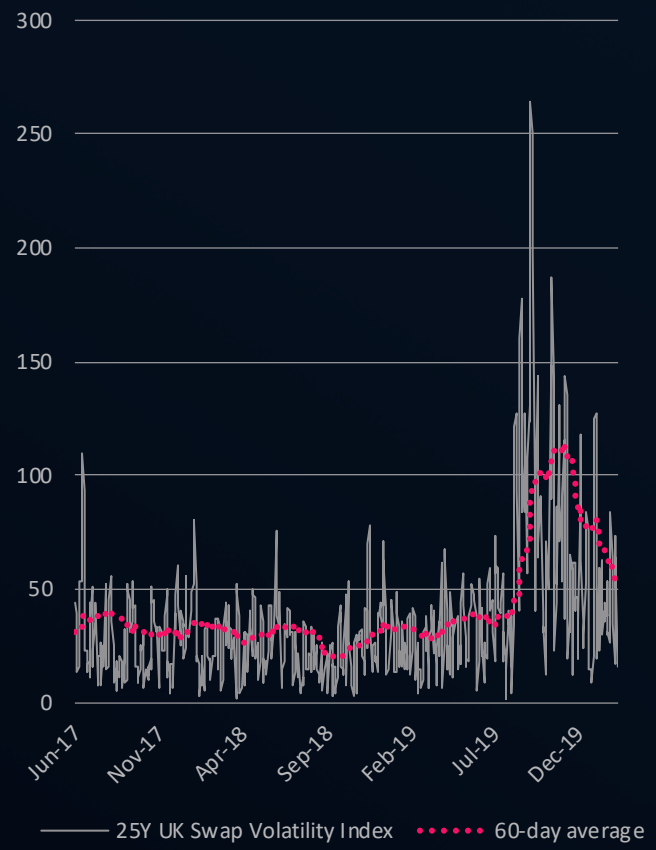
25-Year UK Spot Gilt Rate Since 2000



25-year UK Real Gilt Yields



25-year UK Swap Volatility Index



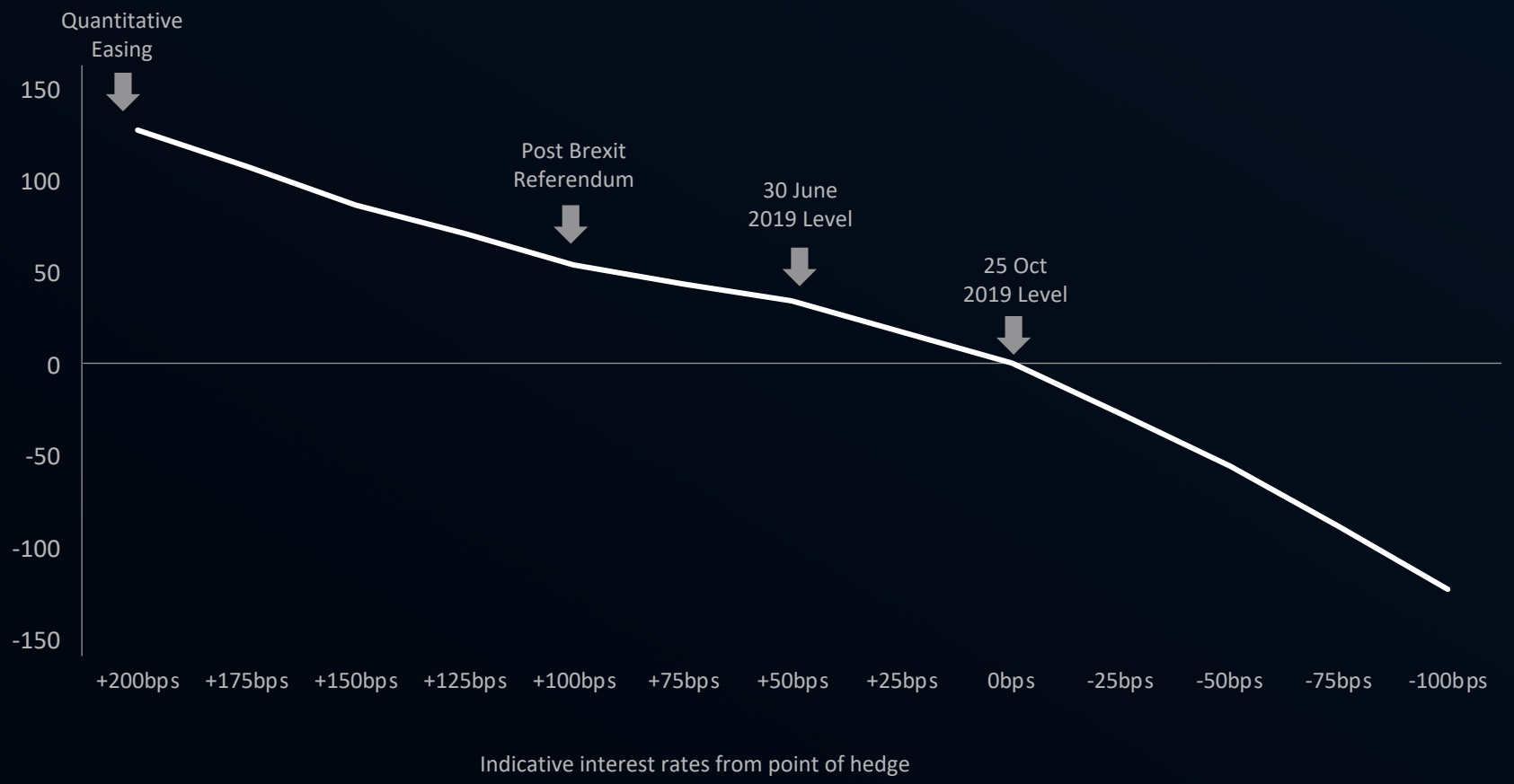
Lowest levels in history

Negative real yields

Increased volatility

Decision to protect VitalityLife against further interest rate decreases

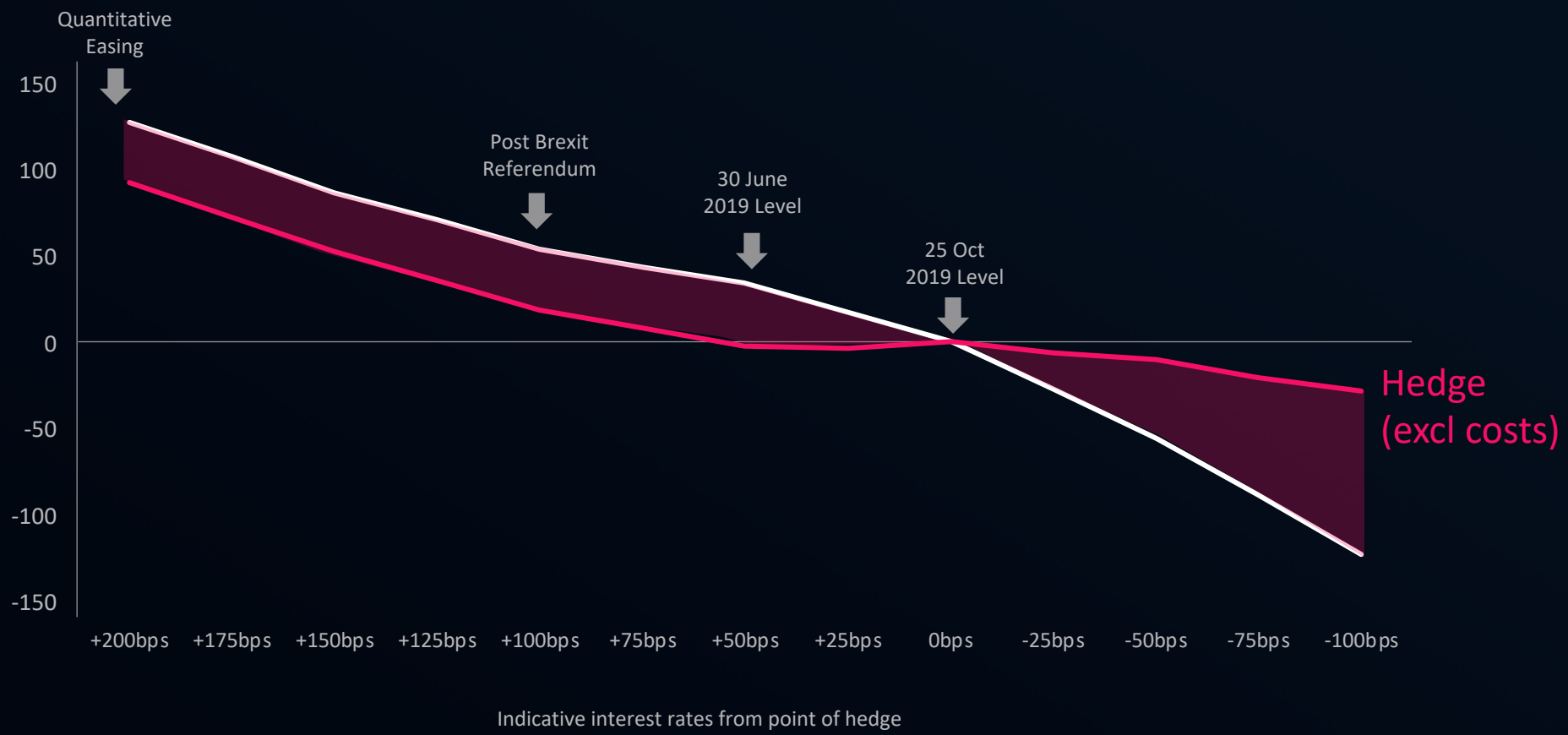
Estimated impact on FY20 operating profit without hedge (£ millions)*



*Before potential impact of discretionary margins

Maximum downside protection at minimum cost, with ability to gain from interest rate increases

Estimated impact on FY20 operating profit with hedge (£ millions)*

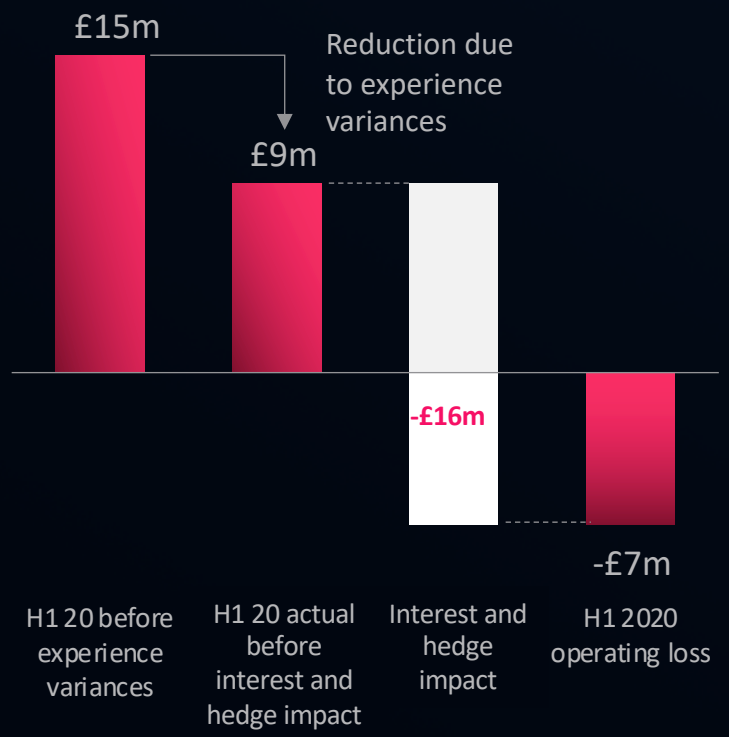


*Before potential impact of discretionary margins

The low interest rate and hedging strategy results in a decline in profit

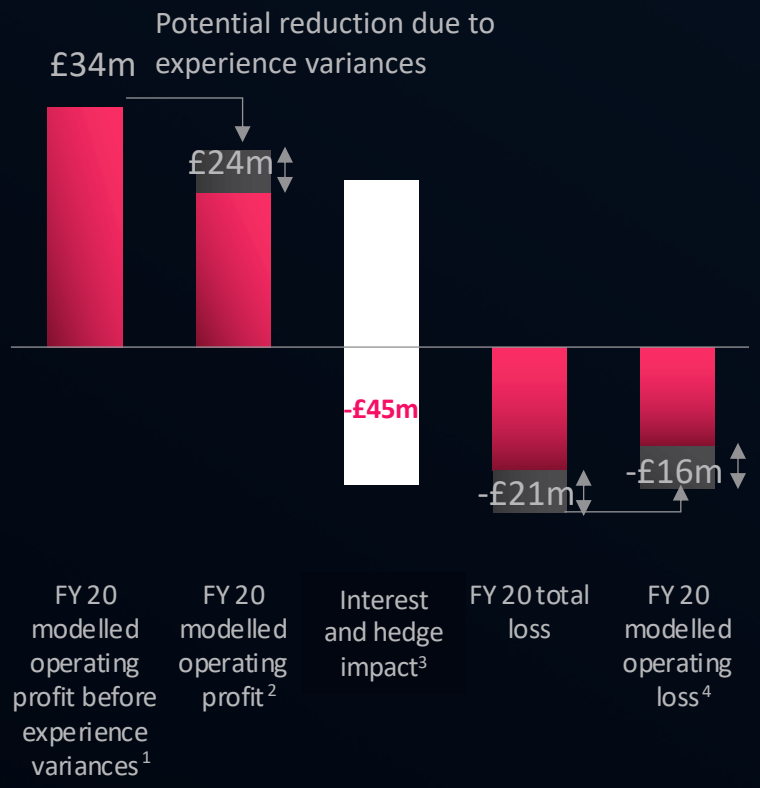
Low rates and hedge impacted profitability

H1 2020 operating profit



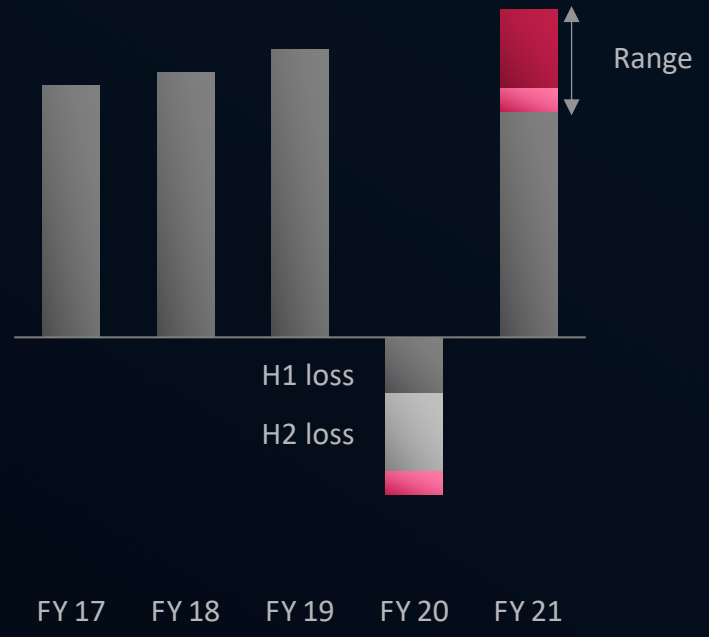
Impact felt for full financial year

FY 2020 modelled operating profit



Expect operating profits to revert

Indicative only, assumes no change in hedging costs, no assumption changes and a range to reflect potential experience variances

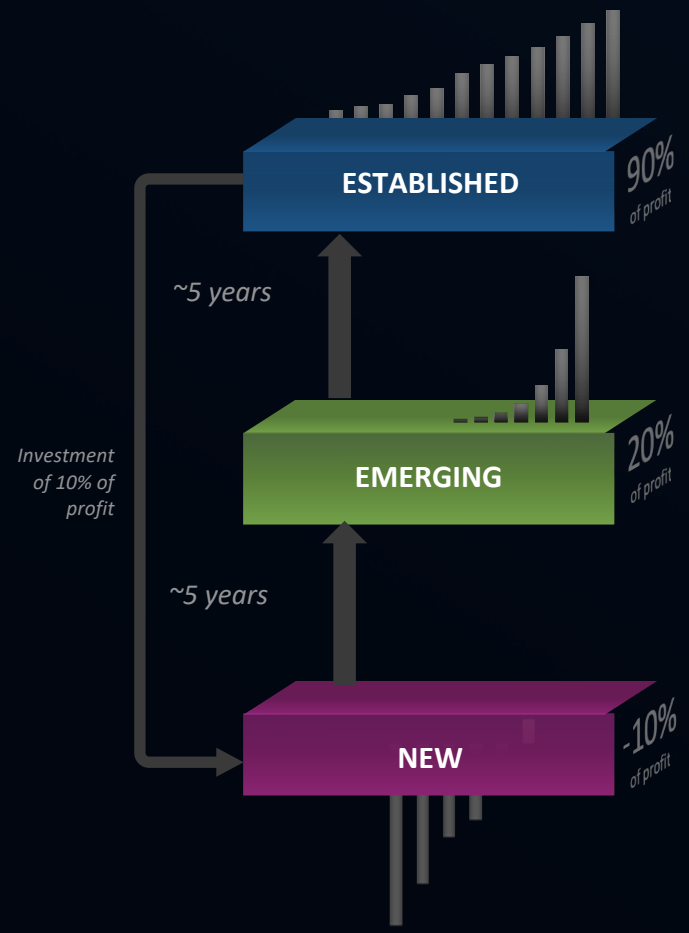


Potential cost of swaption

Uncertainty inherent in experience

Forward looking information on this slide is for illustration and has not been reviewed or reported on by the auditors.

1 Assumes FY2019 + CPI +5% growth, no other variances or basis changes and hedge cost allowed for
2 Assuming H2 20 variances 2/3s of H1 20. No allowance for any basis changes
3 Using spot reference rate at 31 December 2019
4 Adjusted for time value amortisation of the swaption reported below operating profits



	ZAR	Operating profit R3.6bn -7%	New business R11.1bn +17%
ESTABLISHED BUSINESSES	Discovery Health	+8%	+26% Incl. new closed schemes
	Discovery Life	+25%	+2%
	Discovery Invest	+7%	-2%
	Vitality HEALTH INSURANCE	+11%	0%
	Vitality LIFE INSURANCE	-145%	+8%
EMERGING BUSINESS	Discovery Insure	+21%	+7%
	Vitality GROUP	+16%	+17%
	中国平安 PING AN	+467%	+28%
NEW	New businesses	+81%	+173%

+3%
Operating profit Including VitalityLife

+14%
Operating profit Excluding VitalityLife

+13%
New business (-1% excl. new closed schemes)

Continued robust performance from the Established businesses

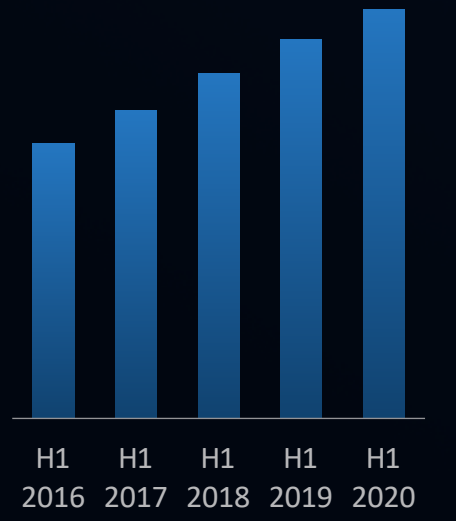
Discovery Health

Continued operational excellence in a challenging environment

+8%

Operating profit

R1 575m



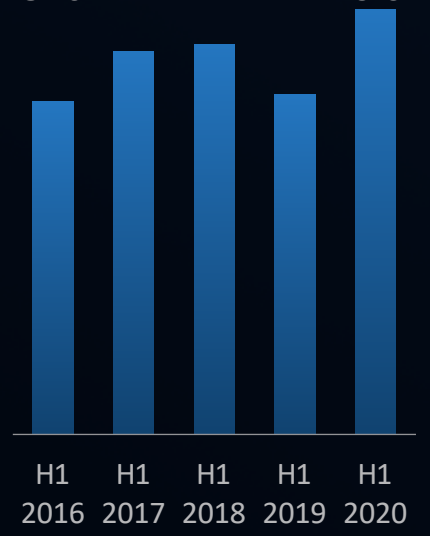
Discovery Life

Rebounded after a challenging 2019 financial year and positive experience variances

+25%

Operating profit

R1 875m



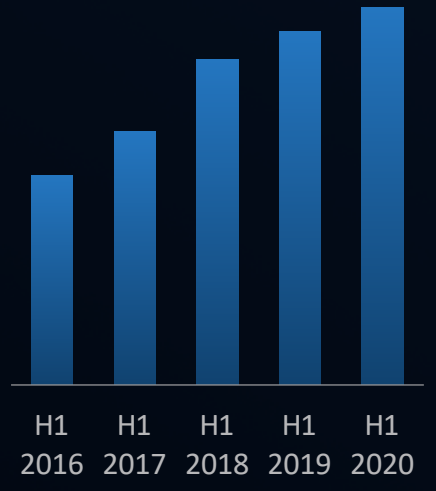
Discovery Invest

Steady growth amidst a weak market

+7%

Operating profit

R485m



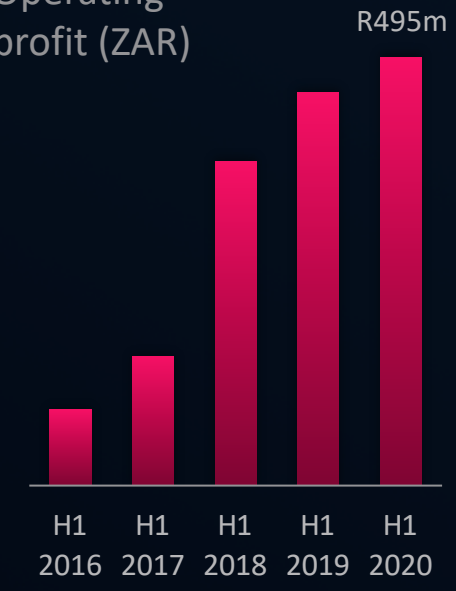
VitalityHealth

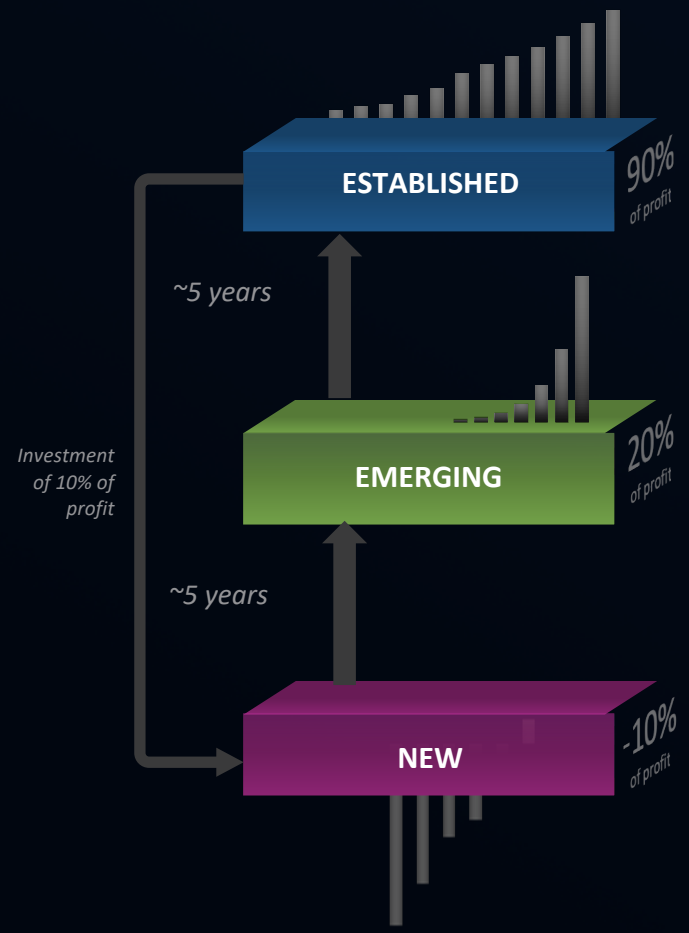
Operational excellence with a continued focus on quality of business

+11%

Operating profit (ZAR)

R495m



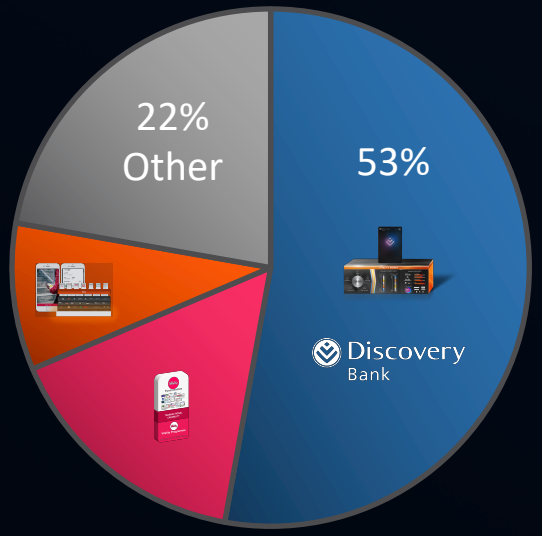


	ZAR	Operating profit R3.6bn -7%	New business R11.1bn +17%
ESTABLISHED BUSINESSES	Discovery Health	+8%	+26% Incl. new closed schemes
	Discovery Life	+25%	+2%
	Discovery Invest	+7%	-2%
	Vitality HEALTH INSURANCE	+11%	0%
	Vitality LIFE INSURANCE	-145%	+8%
EMERGING BUSINESS	Discovery Insure	+21%	+7%
	Vitality GROUP	+16%	+17%
	中国平安 PING AN	+467%	+28%
NEW	New businesses	+81%	+173%

Substantial and planned spend on New Initiatives

Majority on Bank

Breakdown of July – December 2019 operating loss



Recon % spend on New

Excluding financing costs

19% FY Budget

H1 to FY recon

28% Actual H1

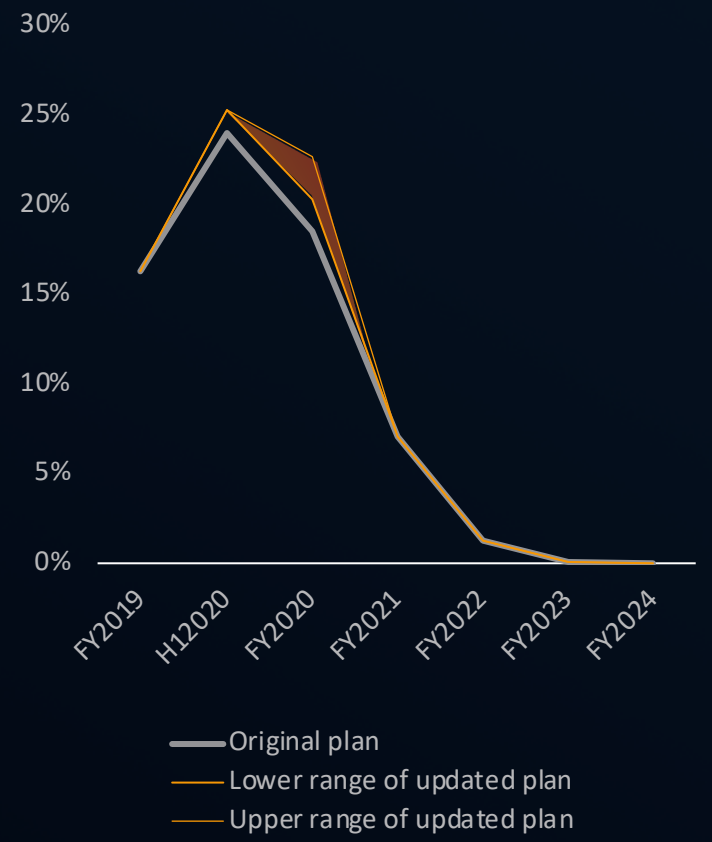
-3% If VL achieved budget

-5 to -2% Skewness of spend

20-23% Normalised FY Forecast

Expected to decrease

% in New excluding financing cost, normalised for VitalityLife* and excluding future New



* Assuming VL achieved H1 budget

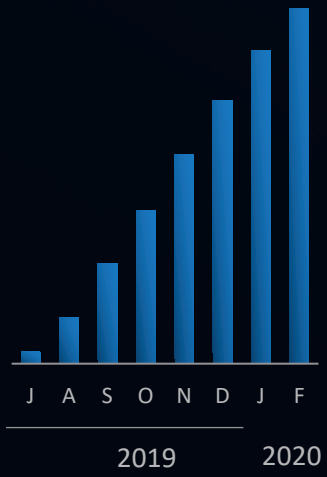
Positive traction and considerable potential



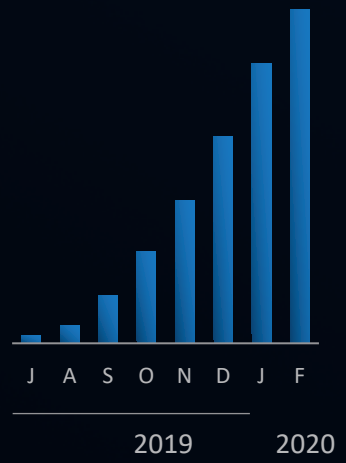
Discovery Bank

Performed ahead of expectation, across all areas of the business

180k
Accounts



R1.2bn
Retail deposits





VitalityInvest

New business growth gaining traction following product changes

17%
Month-on-month new business growth

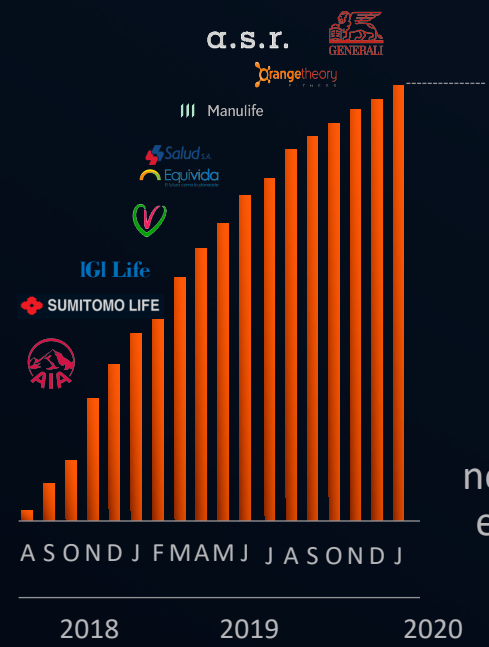




Vitality1 Platform

Designed to support future growth of Vitality's diverse set of partners and products

Cumulative registrations



2m
members

9
markets

+100k
new members every month

Vitality1 is an industrialised solution



PARTNERS

WATCH

Hotels.com

fitbit

GARMIN

STARBUCKS COFFEE

All local reward partners

PROGRAMMES

ACTIVE REWARDS 2020

John Hancock Aspire with Vitality

Vitality FULL

Vitality ACTIVE

Active Rewards + Apple Watch benefit

Vitality for Seniors

PRODUCTS

Vitality AGE

Cashback

Upfront discount

Cover boost

Premium flex

Vitality funds

DATA

VDP and App Integration

Activity Fraud Detection

Goal Achievement

VHC Health Metrics

VHR + Vitality Age

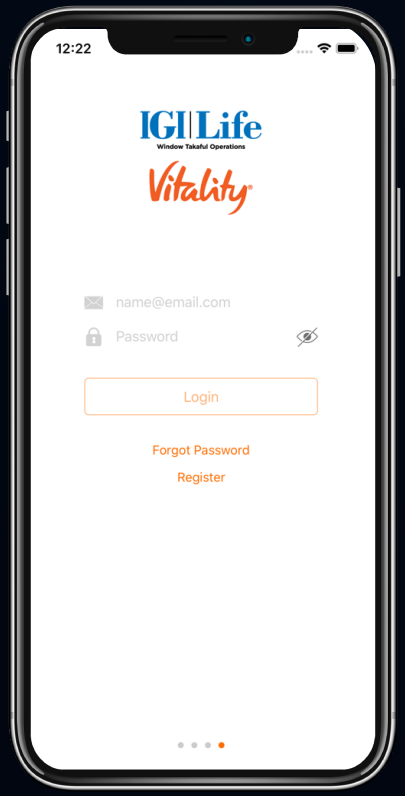
Weekly Active Rewards

Granular Step Counts

Note: Partners, Programmes, Products and Data are illustrative, not comprehensive

Manifests in sophisticated global product delivery and market integration

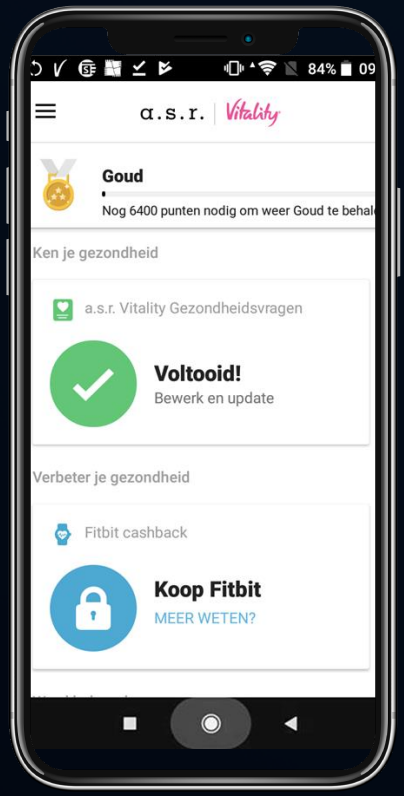
IGI Life Pakistan



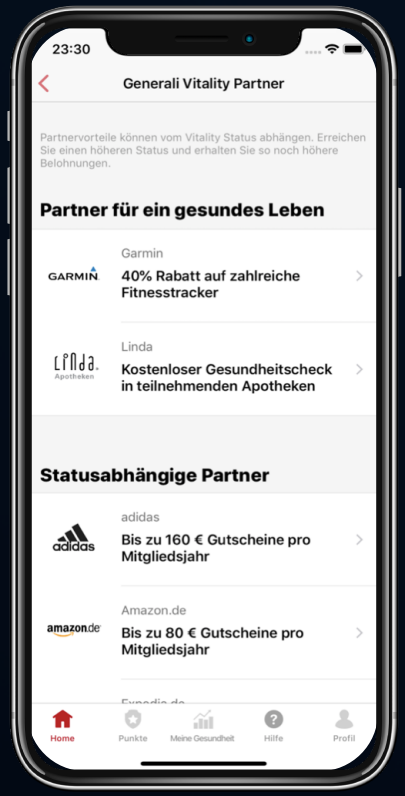
Sumitomo Life Japan



ASR Netherlands



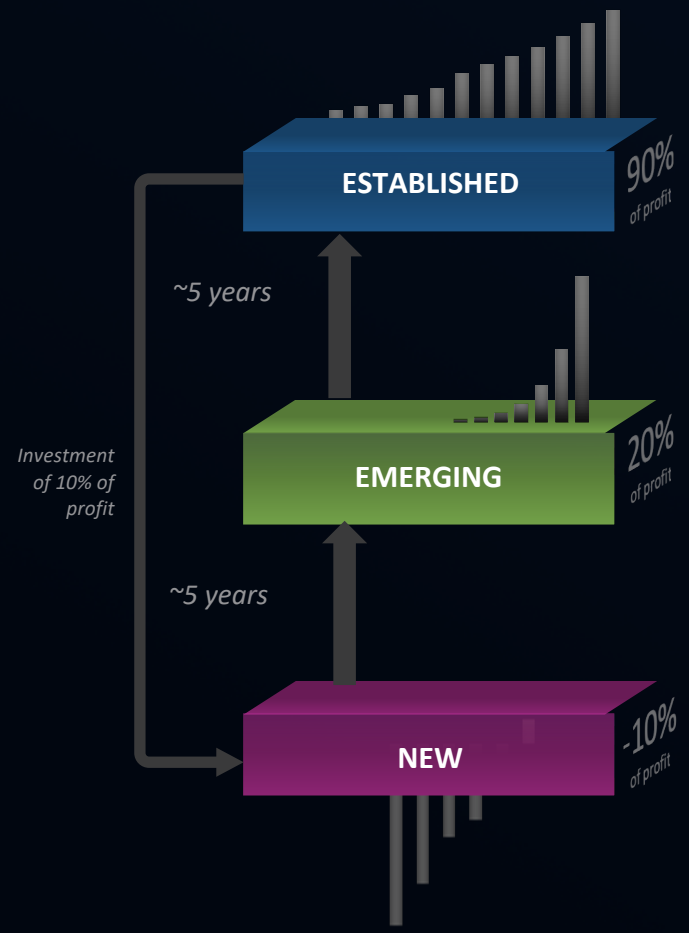
Generali Germany



A unique solution

An unprecedented platform straddled across:

- multiple markets
- languages
- currencies
- time-zones
- calendar years
- federal requirements
- vendors etc.



ZAR		Operating profit R3.6bn -7%	New business R11.1bn +17%
ESTABLISHED BUSINESSES	Discovery Health	+8%	+26% Incl. new closed schemes
	Discovery Life	+25%	+2%
	Discovery Invest	+7%	-2%
	Vitality HEALTH INSURANCE	+11%	0%
	Vitality LIFE INSURANCE	-145%	+8%
EMERGING BUSINESS	Discovery Insure	+21%	+7%
	Vitality GROUP	+16%	+17%
	中国平安 PING AN	+467%	+28%
NEW	New businesses	+81%	+173%

+50% Operating profit

+20% New business

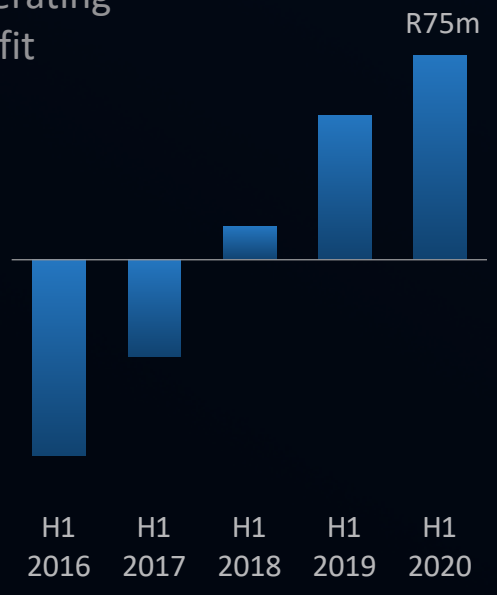
The Emerging businesses are growing strongly

Discovery Insure

Strong quality of business, and profit emerging while scaling

+21%

Operating profit

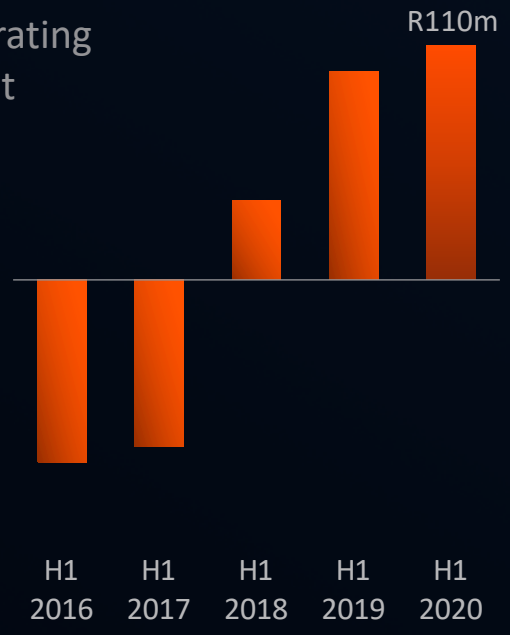


Vitality Group

Excellent growth and relevance, and the Shared-Value model manifesting across all partners

+16%

Operating profit

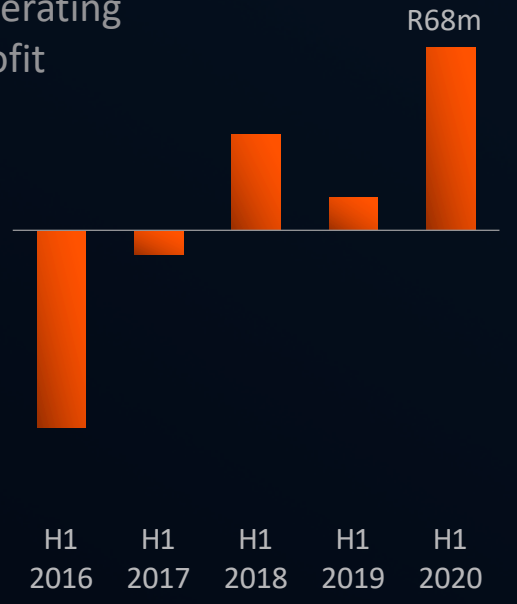


Ping An Health

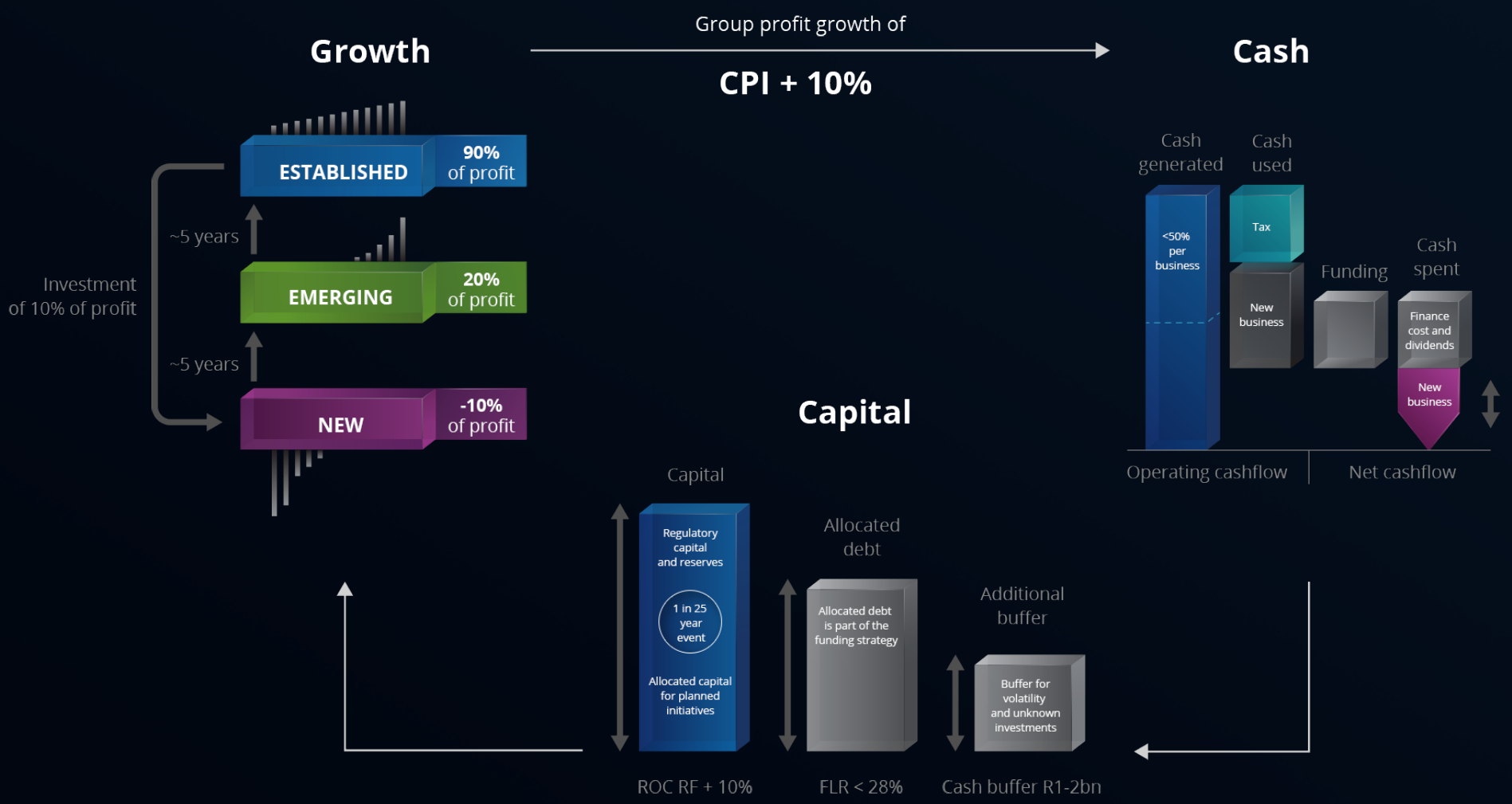
Exceptional growth, achieving RMB10bn premium ambition in 2019. New ambition of RMB100bn set

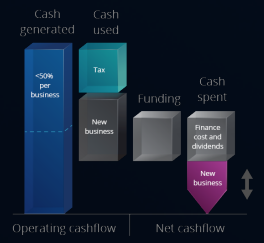
+467%

Operating profit



Operating model





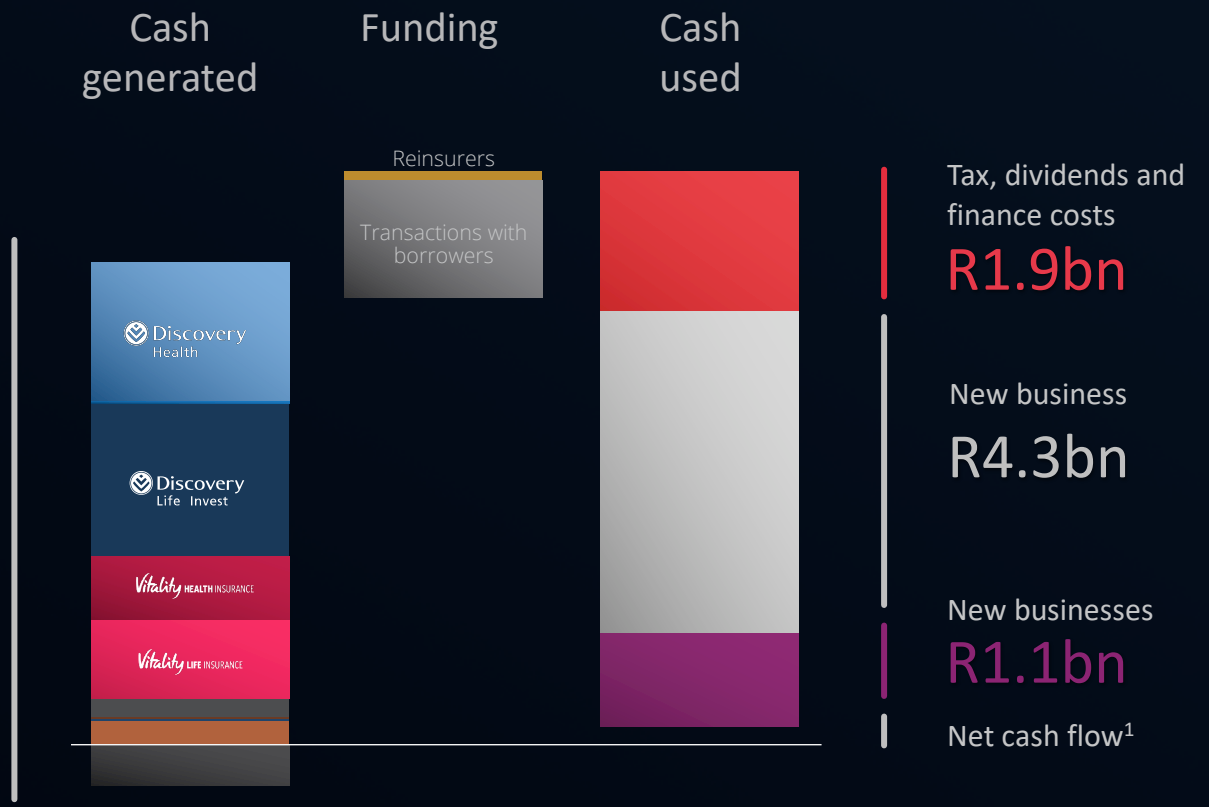
Cash management supports the growth methodology

R5.9bn
Cash generated from in-force

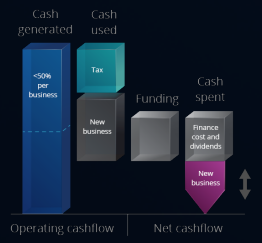
(R5.7bn)
Cash used net of funding

R221m
Net cash flow

Cash generated from in-force business
R5.9bn



1 Movement in shareholder free cash

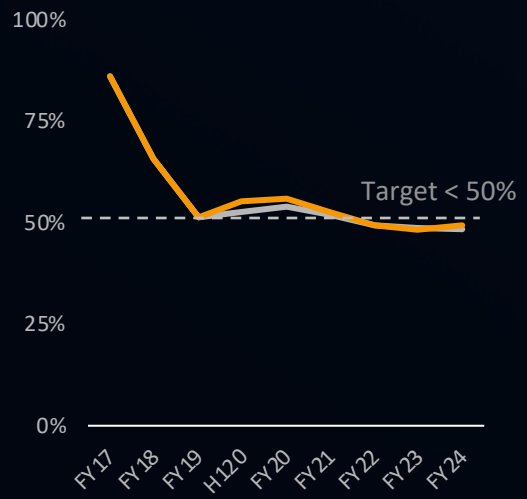


Improving cash generation

Diversification of cash flow improving

Cash from any one business should not contribute more than 50% of the total operating cash

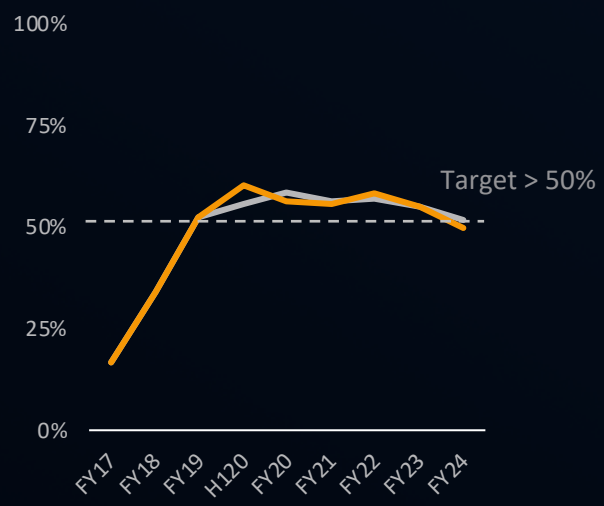
$$\max\left(\frac{Cashflow\ from\ Business_i}{\sum_i Cashflow\ from\ Business_i}\right) < 50\%$$



Cash conversion above target

More than 50% of operating profit must be cash earnings

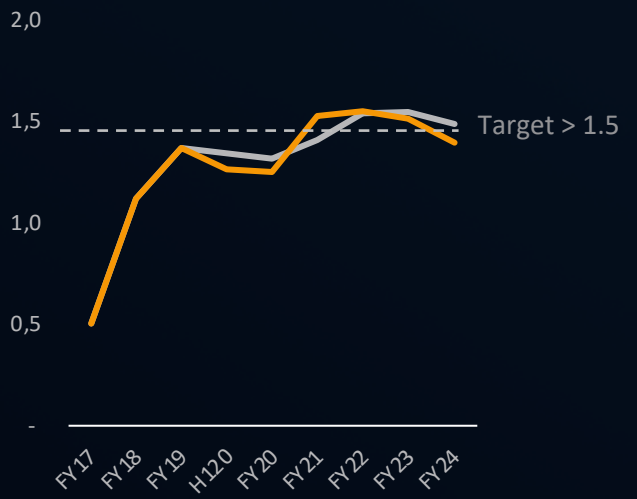
$$\frac{Operating\ cashflow}{Operating\ profit} > 50\%$$



Cash cover on target

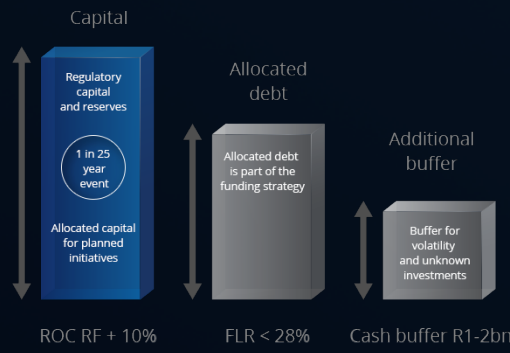
Operating cash flow should be enough to at least cover dividends and finance costs 1.5x

$$\frac{Operating\ cashflow}{Dividends + finance\ costs} > 1.5x$$



Original June 2019 plan
Updated plan

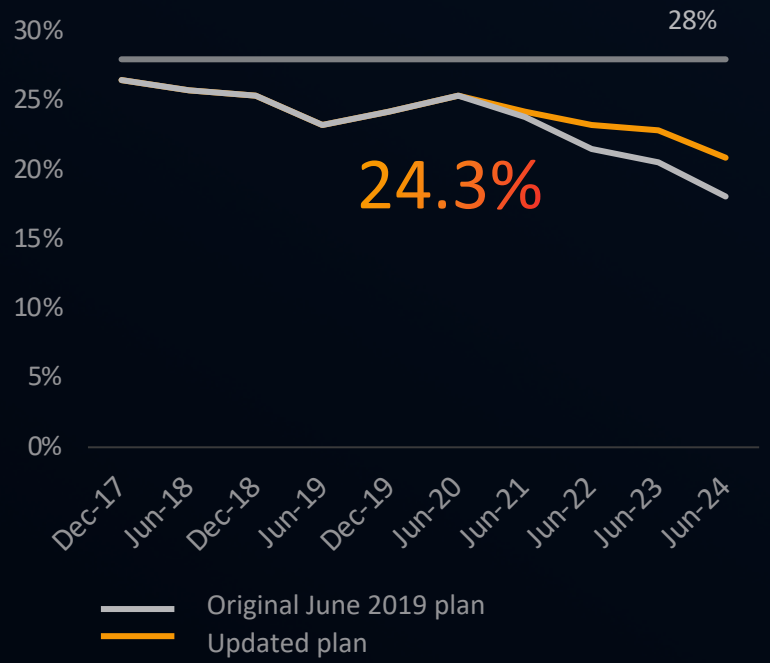
The Group is well capitalised



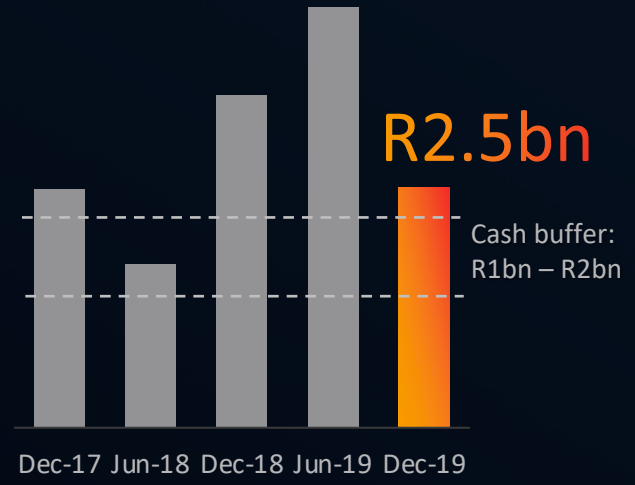
Strongly capitalised

Rm	Statutory capital requirements	Cover
Discovery Life	R16 278m	1.7x
Discovery Insure	R846m	1.7x
Vitality HEALTH INSURANCE	R1 789m	1.4x
Vitality LIFE INSURANCE	R3 526m	1.7x

FLR is decreasing

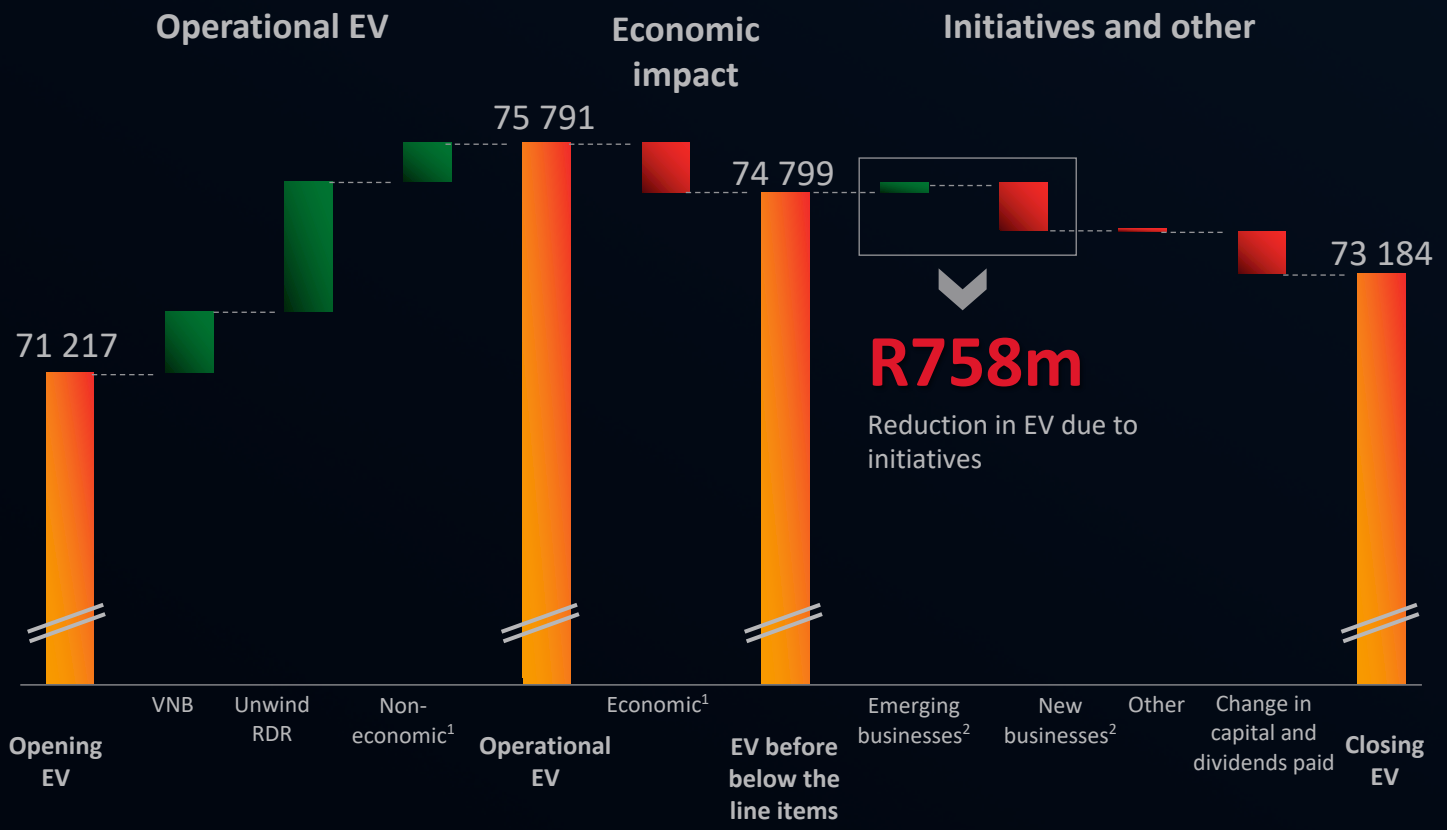


Cash buffer is stable



8% Return on Embedded Value

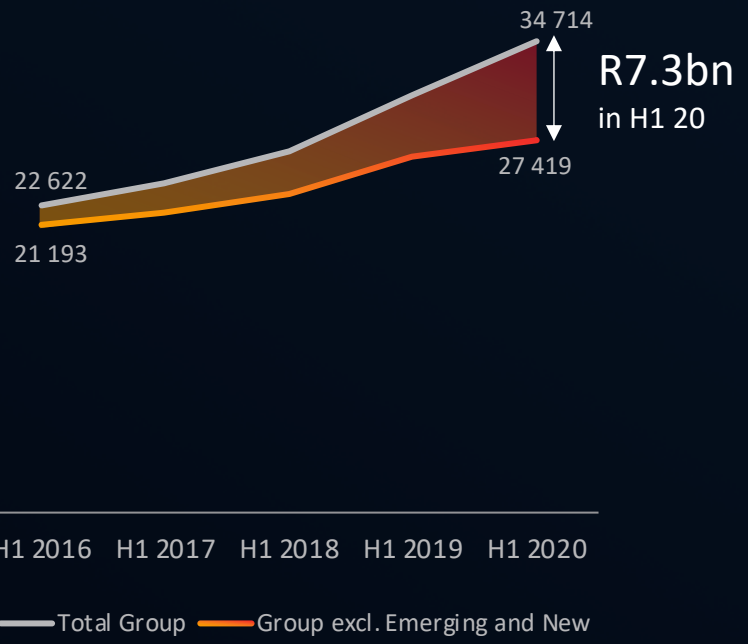
ROEV, 10% excluding
forex and economic changes



Group revenue

~21%

of total revenue[3] is attributable to Emerging and New businesses



1 Experience variances and methodology and assumption changes
2 Including allocated finance costs

3 Including 25% Ping An Health written premium

Reconciliation to normalised headline earnings

Rm	6 months ended Dec 2019	6 months ended Dec 2018	% change
Profit from operations	**3 551**	**3 799**	**-7%**
Realised investment returns on shareholder investments and cash	171	247	
Dilution gains from equity accounted investments	-	51	
Finance charges excl. 1DP finance lease	(581)	(512)	
Impact of replacing market related rentals with finance costs and depreciation	(137)	(142)	
Unrealised fair value gains/(losses) on shareholder financial instruments	14	(152)	
Other	(43)	(71)	
Profit before tax	**2 975**	**3 220**	**-8%**
Tax	(897)	(894)	
Profit attributable to preference shareholders	(41)	(40)	
Profit attributable to equity holders	**2 037**	**2 286**	**-11%**
Dilution gains from equity accounted investments, net of tax	-	(51)	
Impairment of goodwill	9	-	
Impairment of intangible assets, net of tax	1	17	
Headline earnings	**2 047**	**2 252**	**-9%**
Amortisation of intangibles from business combinations, net of tax	28	54	
Debt restructuring costs resulting from DSY Card business transaction	-	33	
Unrealised losses on foreign exchange contracts not designated as a hedge, net of tax	8	26	
Initial expenses related to Prudential Book transfer, net of tax	15	11	
Transaction costs related to VitalityLife interest rate derivatives, net of tax	19	-	
Normalised headline earnings	**2 117**	**2 376**	**-11%**

Dividend declaration of:

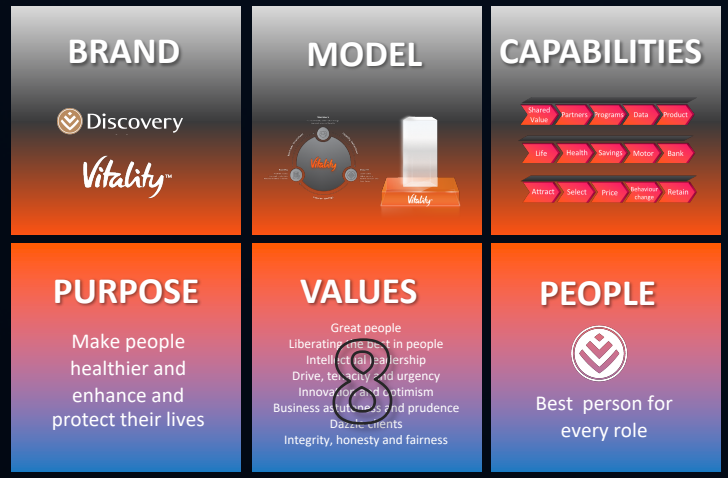
101

cps

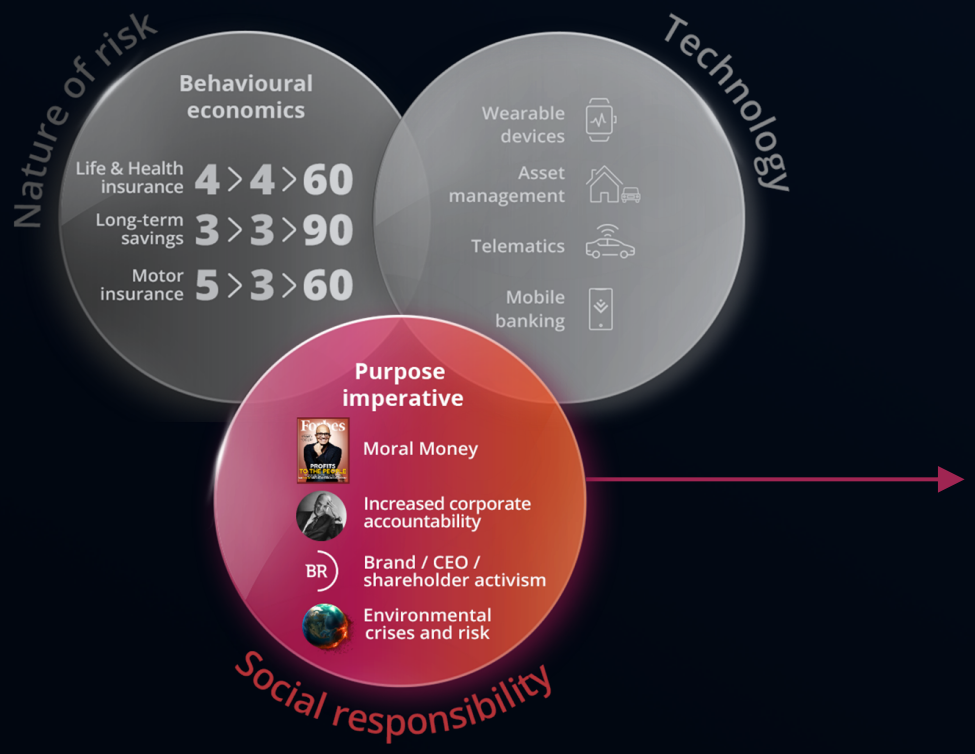
(+0%)

2

Foundation



The evolution of purpose



1 Philanthropy

"It is not a problem"

- Let's **ignore or understate** the problem
- Let's **minimise our responsibility**
- Philanthropy is about personal value

2 CSR

"It is a problem"

- Let's minimise the problem and **throw some money** at it to show we're contributing
- Managing **corporate reputation**

3 ESG

"Let's solve the problem"

- We need to **add costs to fix the problem**/reduce risks
- We need to report transparently on our results
- We can use our core business capabilities to find solutions

4 Shared Value

"It's an opportunity "

- We **can lower costs**, grow revenues or differentiate our value proposition by **addressing social** problems
- Even social problems we don't usually affect pose opportunities

Source: Michael Porter

Causes of the shift in the nature of risk



The understanding of behaviour has become crucial

Life insurance

Cause of death



- NCDs
- Communicable
- Injuries

These are behavioural

Long term savings

DB › DC

Investment amount
Retirement Age
Income at retirement
Life expectancy

Motor insurance

Ratings factors based on
- *Prior claims*
- *Age*
- *Gender*
- *Location*

Factors causing an accident



- Driver behaviour
- Car
- Environment

Banking

Ratings factors based on
- *Credit history*
- *Income*
- *Industry*

Behavioural rating factors

5 → 80%

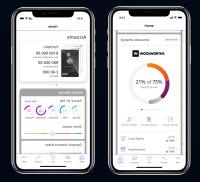
Controllable behaviours → Defaults and shortfalls

The research and development agenda is substantial

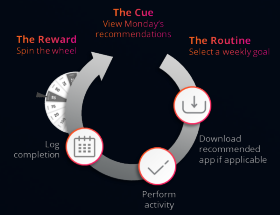
Shared-Value capability

Shared Value | Partners: Incentive / Member | Programs: Δ Behaviour / Incentive | Data: Bent (qx) / Δ Behaviour | Product: Value / Bent (qx)

Vitality Money Update



Active Rewards 2020



Industry capability

Life | Health | Savings | Motor | Bank

Discovery Bank



Corporate Productivity

Microsoft

Shared – Value Health Insurance



Vitality Investment Platform



Value chain

Attract | Select | Price | Behaviour change | Retain

Vitality RUNNING WORLD CUP

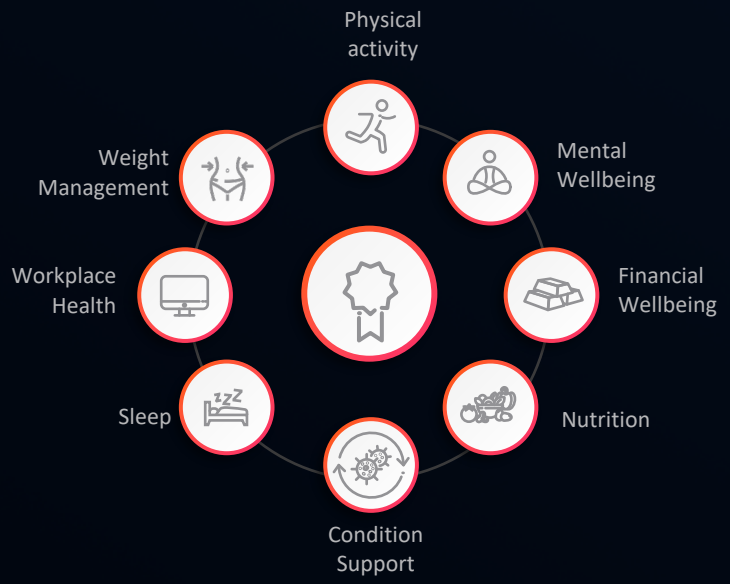
Vitality Distribution



AR2020 | Personalised pathways based on individual's unique health risk

Expansion of Active Rewards

New wellness modules to incentivise change across a broad range of healthy behaviours



Content for select pathways reviewed by

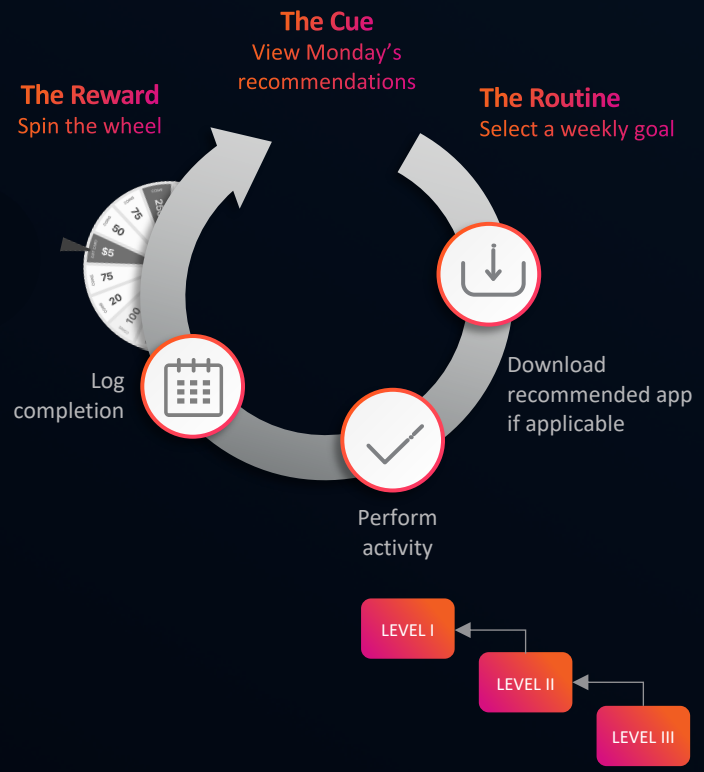
HARVARD MEDICAL SCHOOL

User experience testing

Apple Design Lab

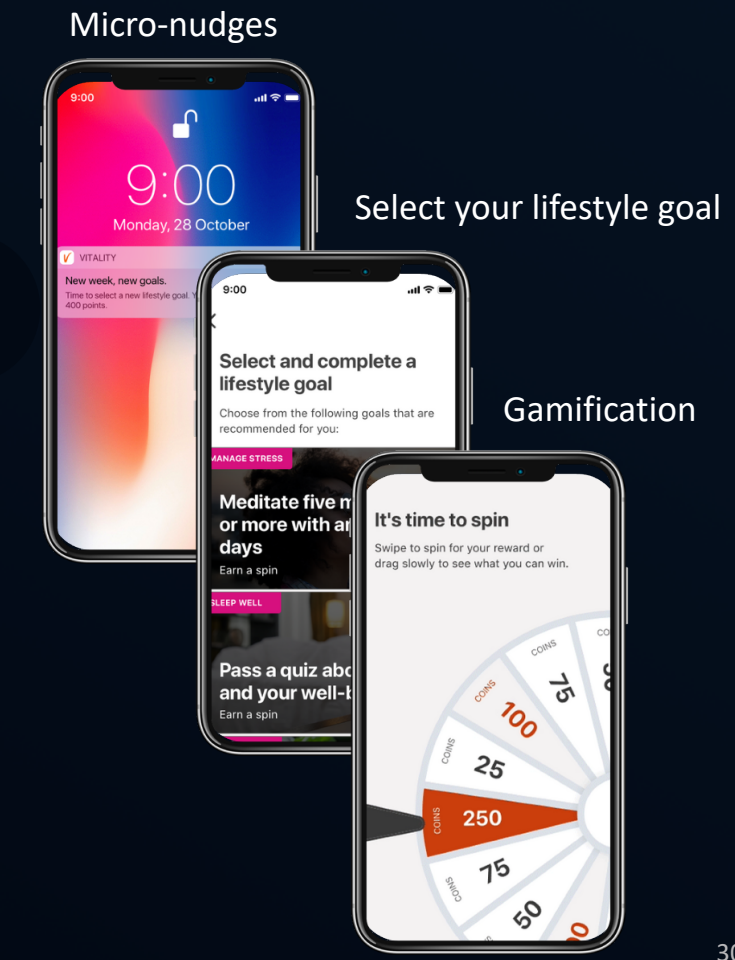
Built on behavioural science

Member journey follows a positive habit formation loop to drive ongoing engagement



Personalised approach

Individual risk profiles drive activity recommendations which progress over time with behaviour change



Long-term savings is exposed to behavioural factors

$$\text{Replacement Ratio} = \frac{\text{Savings} \times {}_{R-x|}S\,@i}{a_{\overline{e_x - R|}}\,@i}$$

Projected income at R

i
- Rapidly decreasing asset management fees
- Increased fund diversity and rise of passive investment
- Platforms democratising asset management capabilities

Behavioural
- When you start saving
- How much you invest
- When you retire
- How much income you draw
- Your health and how long you live

+1YR = +2.5%
IN INCOME IN RETIREMENT

+STATUS = -4%
IN INCOME IN RETIREMENT

Replacement Ratios

Good health

Good money behaviour

Retire Invested	Vitality Status					
	None	Blue	Bronze	Silver	Gold	Diamond
61, 175000	57%	**52%**	50%	50%	47%	46%
61, 200000	66%	61%	58%	58%	55%	54%
65, 175000	70%	66%	60%	60%	56%	55%
65, 200000	80%	**75%**	68%	68%	65%	**63%**
65, 225000	91%	84%	77%	77%	73%	71%
69, 200000	101%	93%	83%	83%	77%	75%
69, 225000	114%	**104%**	93%	93%	87%	84%

Base: 40 year old, retiring 65, PV savings $200,000, status Blue (target savings until age 90).

Building a Shared-Value Investment Platform

+1YR = +10%

IN PV PROFIT

+STATUS = +8%

IN PV PROFIT

Indexed profit

Retire (R) / Invested	Vitality Status					
	None	Blue	Bronze	Silver	Gold	Diamond
61, 175000	44	50	58	58	64	67
61, 200000	50	57	67	67	73	77
65, 175000	77	88	103	103	113	118
65, 200000	88	100	118	118	129	135
65, 225000	99	113	132	132	145	152
69, 200000	127	143	168	168	185	194
69, 225000	142	161	189	189	208	218



1. Link health behaviour into retirement planning
2. Include behavioural nudges in retirement planning
3. Create Shared Value through incentives and have a positive impact

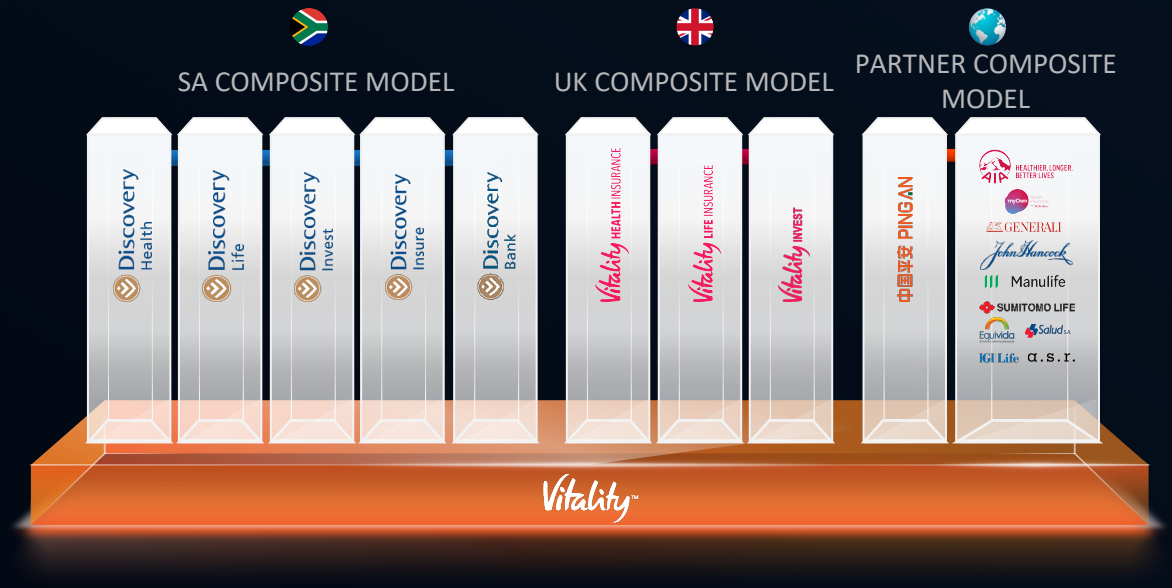
Fee reductions

	BRONZE Vitality Status	SILVER Vitality Status	GOLD Vitality Status	PLATINUM Vitality Status
< £75K	0.25%	0.18%	0.15%	0%
£75K-£150K	0.2%	0.15%	0.10%	0%
£150K-£250K	0.15%	0.1%	0.05%	0%
£250K+	0%	0%	0%	0%

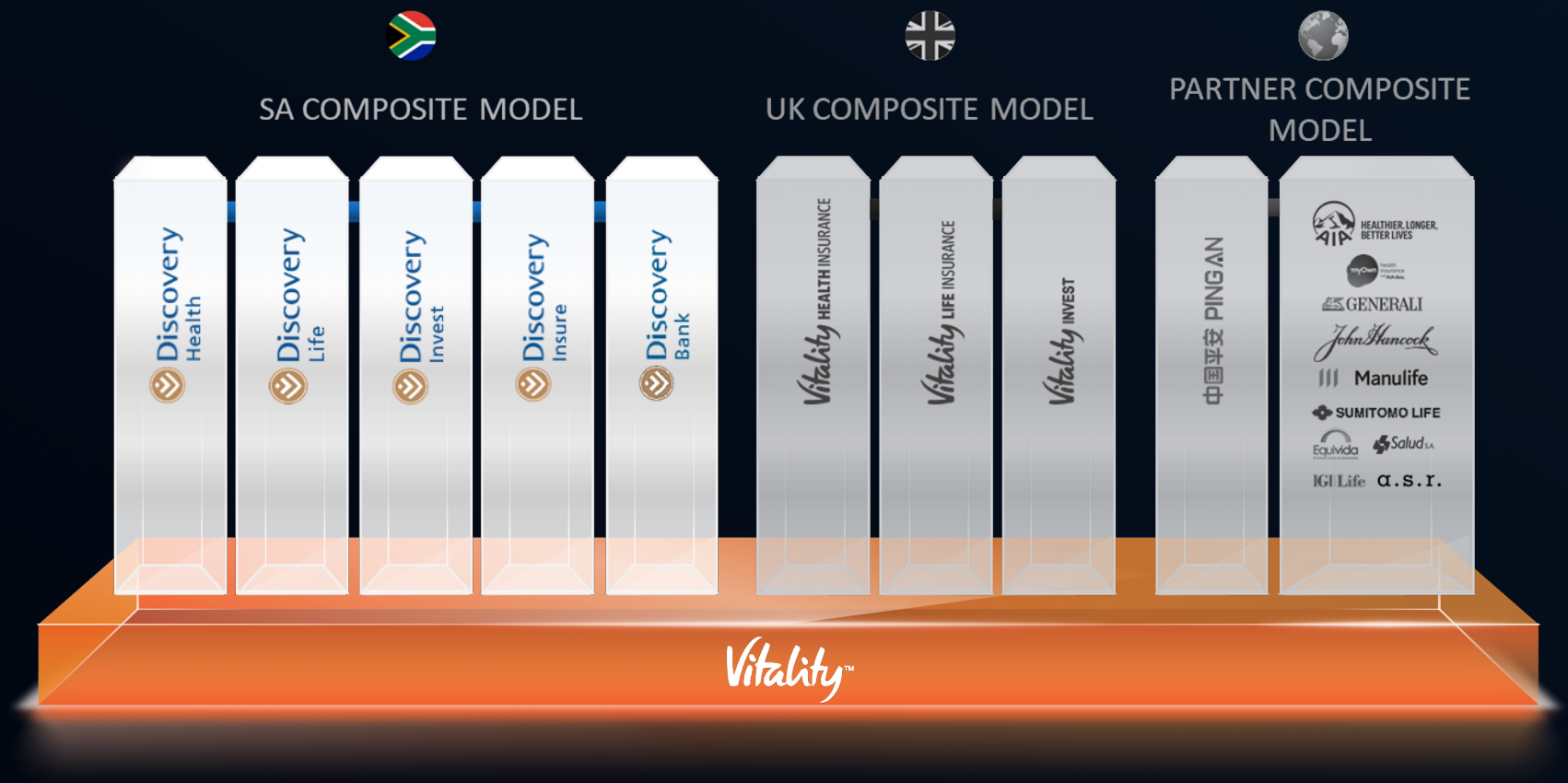
Investment boosts

Term to boost payment date (years)	Boost on Discovery funds	Boost on external funds
10 ≤ term < 15	7.5%	3.75%
15 ≤ term < 20	12.5%	6.25%
20 ≤ term < 25	15%	7.5%
25 ≤ term < 35	20%	10%
35 ≤ Term	25%	12.5%

3
Businesses



1. Perfect **composite model**, #1 in every industry, and laboratory for shared value in financial services. A successful entry into banking
2. The best insurer in the UK, making use of a **composite Shared-Value Model**
3. Ping An Health delivers on its plan to become the **leading health insurer in China** with over 50m clients
4. Vitality is the world's largest and most sophisticated **behavioural platform** linked to financial services, with disciplined execution


SA COMPOSITE MODEL
UK COMPOSITE MODEL
PARTNER COMPOSITE MODEL
Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Bank
Vitality HEALTH INSURANCE
Vitality LIFE INSURANCE
Vitality INVEST
中国平安 PINGAN
AIA HEALTHIER, LONGER, BETTER LIVES
GENERALI
John Hancock
Manulife
SUMITOMO LIFE
Equivida
Salud
IGI Life
a.s.r.
Vitality™

Discovery Bank

1

Leverage key strategic advantages to build a retail-heavy bank of scale

2

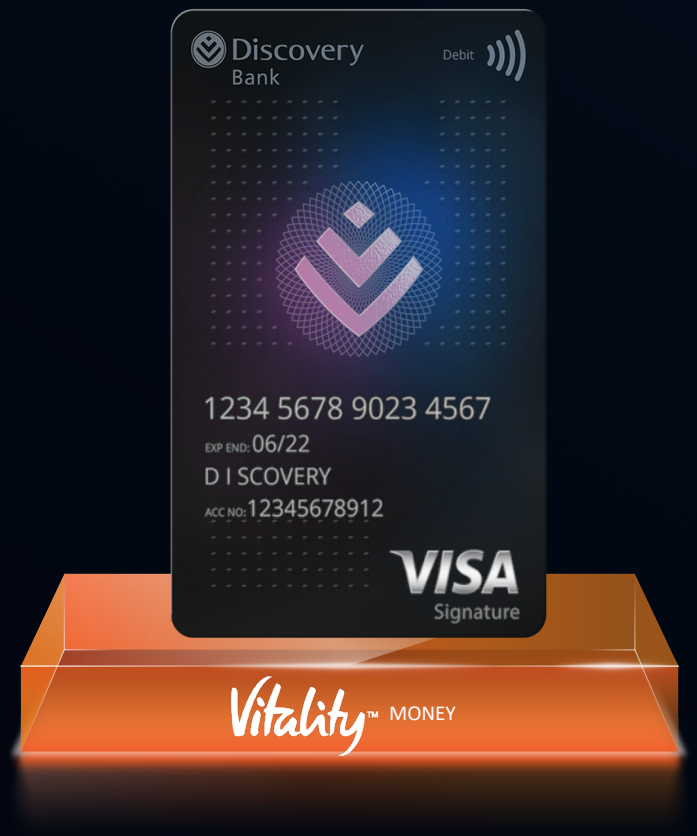
Deliver customer growth and cost trajectory according to plan

3

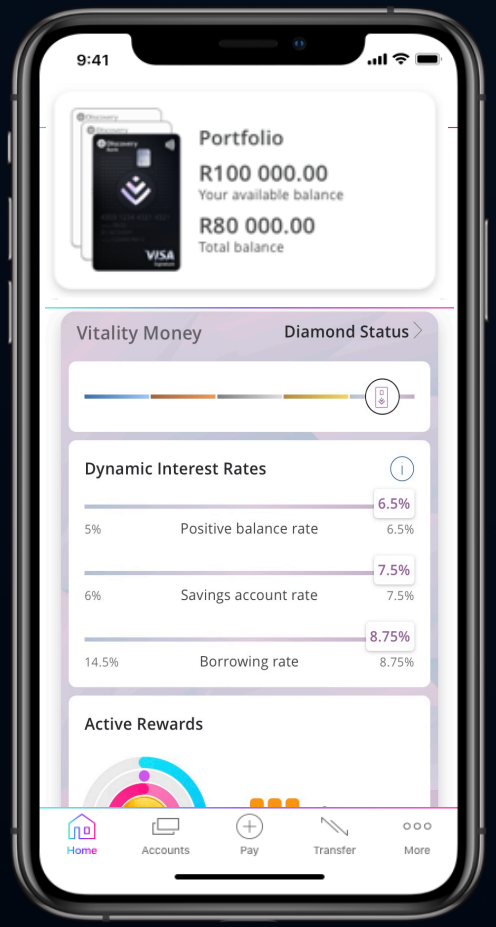
Demonstrate that behavioural banking clearly differentiates the customer proposition

Journey to building the Discovery Bank

Architectural Concept



Full Bank

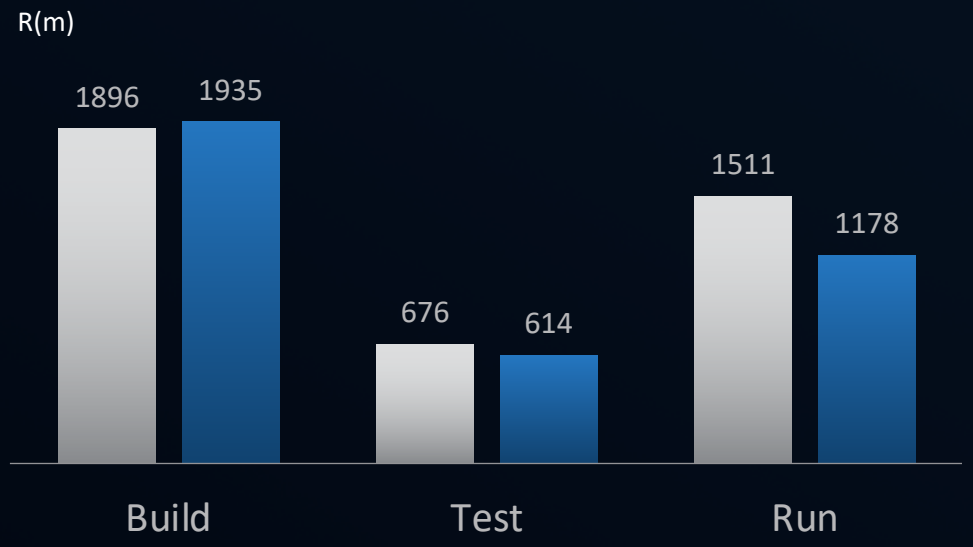


IFRS Result (31 December 2019)

R587m	R530m
Expected	Actual

Capital spend to date

R4 083m	R3 727m
Expected	Actual



Discovery Bank hypotheses

Foundation to the Discovery Bank

Mass Affluent Client Profile

80% of DSY client footprint are LSM 8-10



Shared-Value model and Discovery ecosystem

5 behaviours -> 80% of defaults and shortfalls



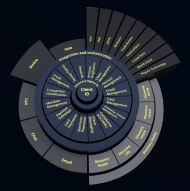
Data Capability

>40 million life-years of behavioural linked financial services data



Fintech and New Technologies

Neo-bank presents a lower cost-income ratio [30% vs 50%]



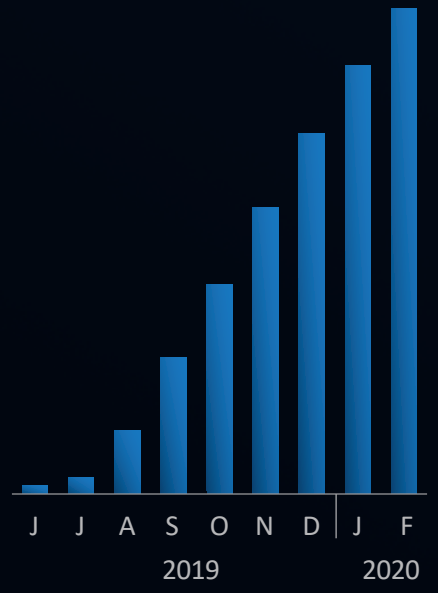
Strategic questions

1. Can we build a retail-heavy bank of scale?
2. Can we build a value proposition based on Shared-Value that gets cut-through?
3. Does the model provide client engagement, behaviour change, correlation and does the mathematics work?
4. Can the Bank create the composite maker for the SA businesses?

Discovery Bank

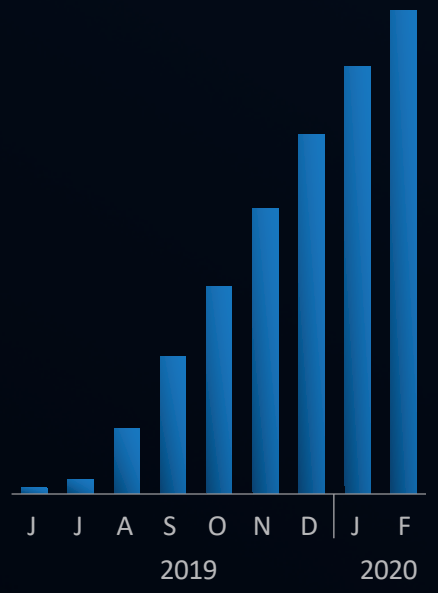
Accounts

180k



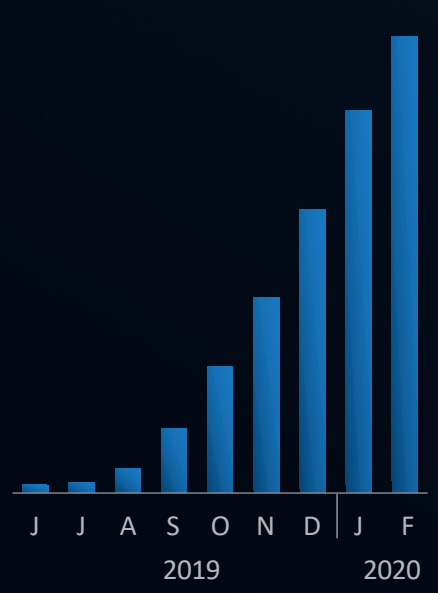
Clients

78k



Retail deposits

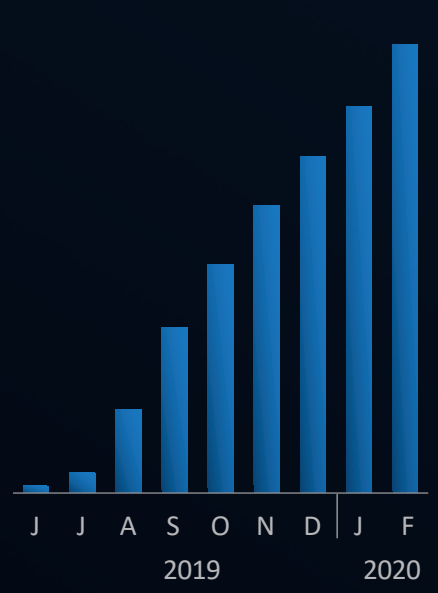
R1.2bn



Credit utilisation

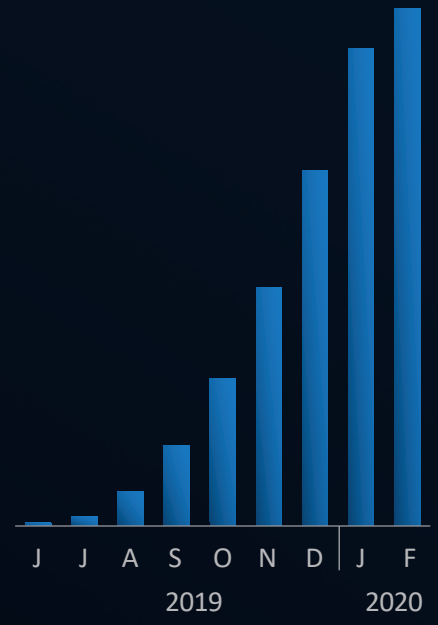
R1.0bn

Available
R2.5bn



Total spend

R2.6bn

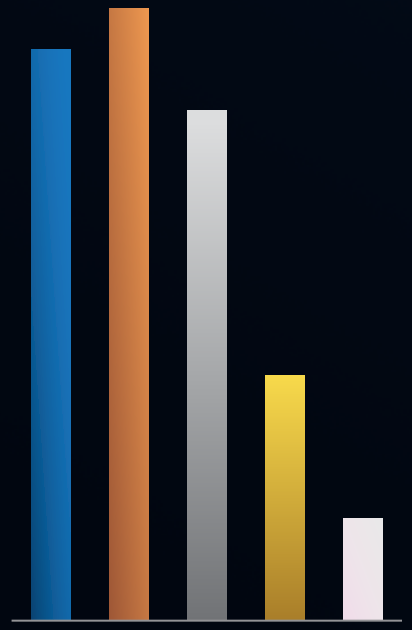


Bank performance as at 18 February 2020

Bank utilisation and dynamics are attractive

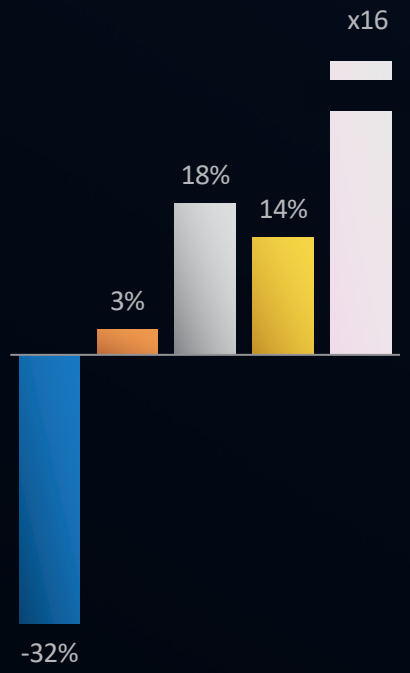
Engagement

Vitality Money
Status distribution



Behaviour change

Status shift two months since joining



Credit card spend

3x
market average



Credit arrears rate

5x
less than market*



Average deposits

20%
more than market



75% of clients are on bundled accounts

*Transunion statistics

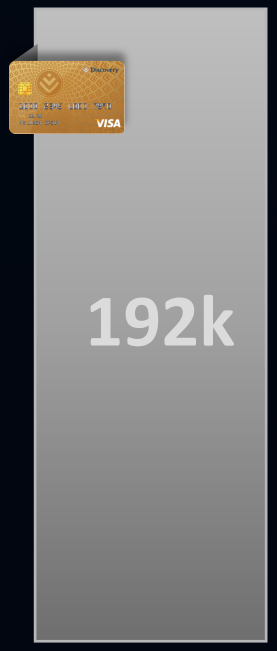
Bank client base and distribution strategy

Existing client base and migration



42%
Never had a Discovery Card

58%
Previously had a Discovery Card



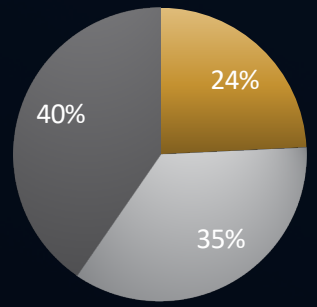
192k
Credit Card clients still to migrate

Expected to be completed by H2 2020

FNB

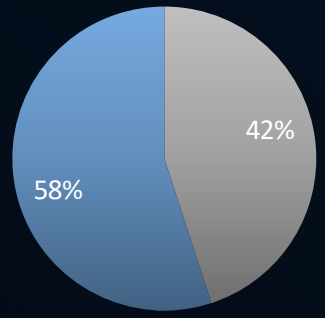
Profile of migrated segments

Account colour

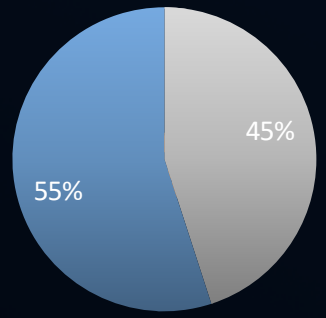


Gold Platinum Black

Banking classification



Transacters Revolvers



Of active Discovery Card clients

Activation of distribution channels

H2 2020

1300
Tied agents

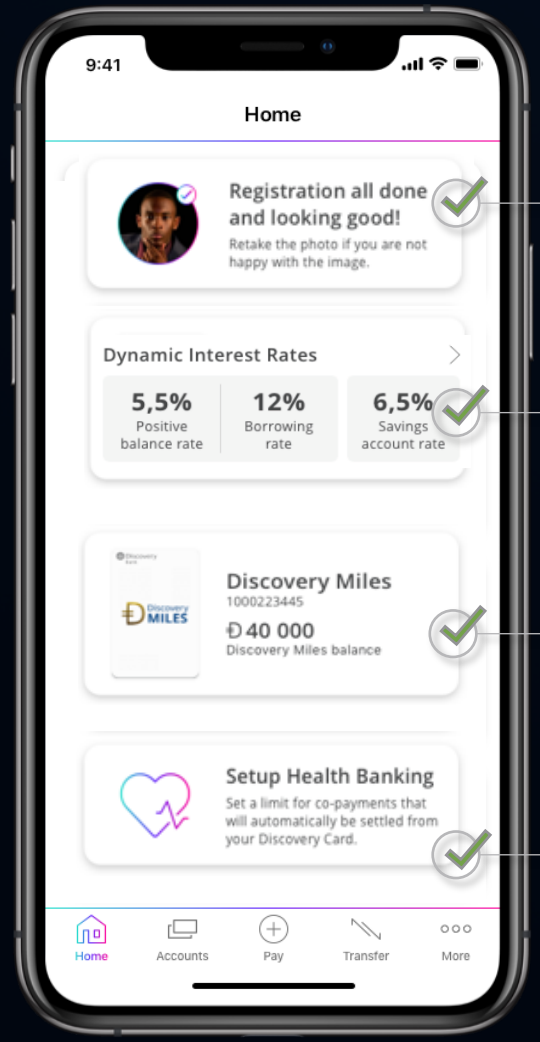
4500
IFAs



±45%
of former Discovery Card sold through adviser distribution channel

Client proposition and lessons learned

Components with wide adoption and clear appeal



Average onboarding time
8 min

Joining after hours
55%

Deposits
R1.2bn

Credit utilisation
R1bn

Miles earned per day
165k

Miles in circulation
2bn

Linked providers
924

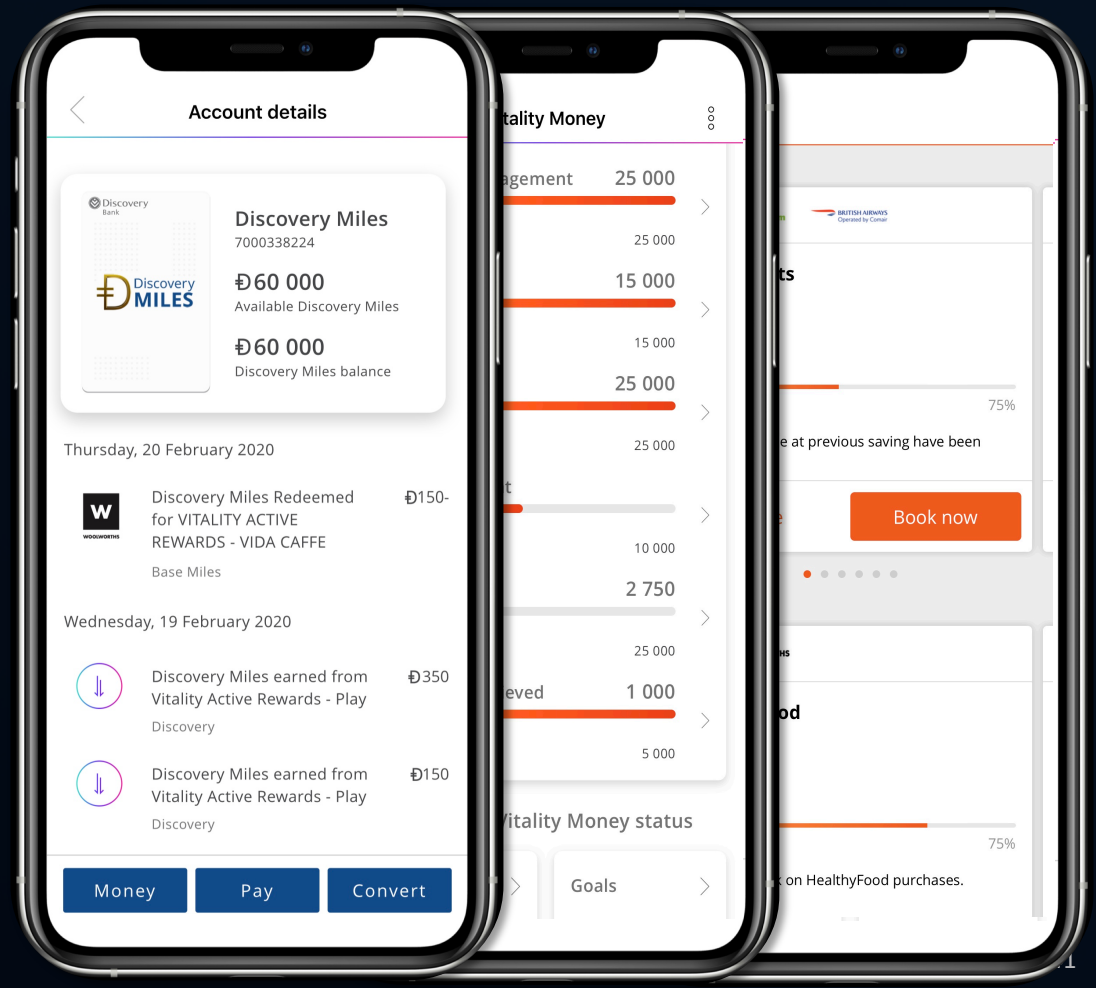
Baskets avoided
13k

Development priorities

Cash back -> Miles

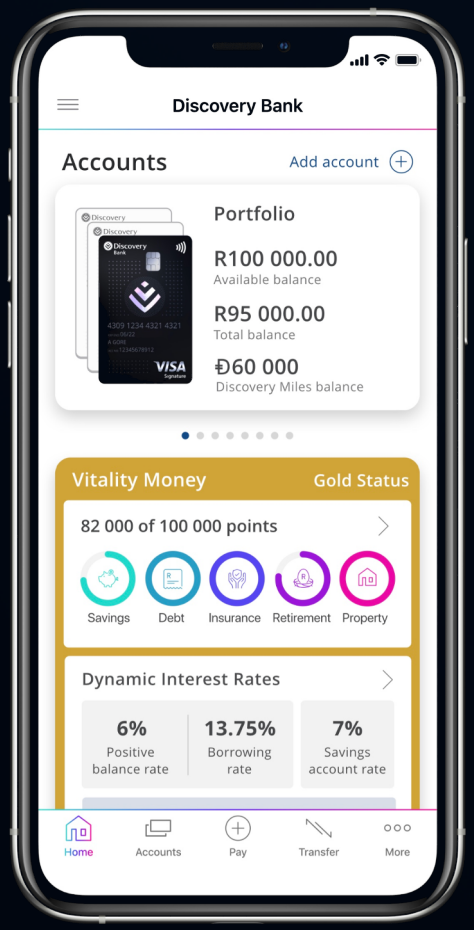
Vitality Money

Behaviour change

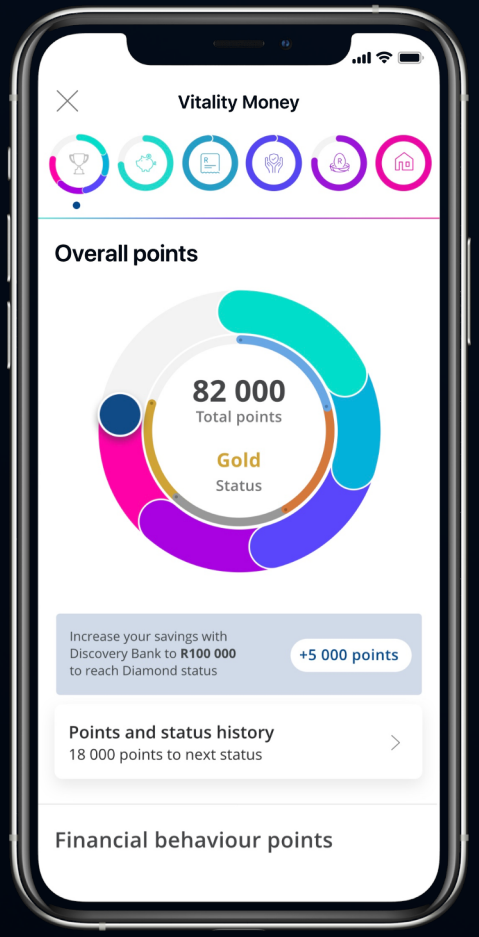


Enhancements planned for 2020

New Vitality Money



Behavioural Rings



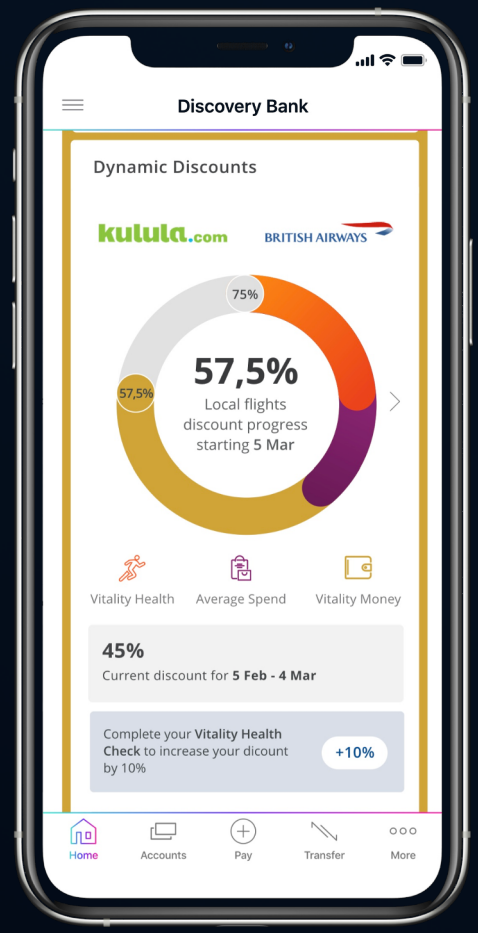
Dynamic discounts



Next Best Actions

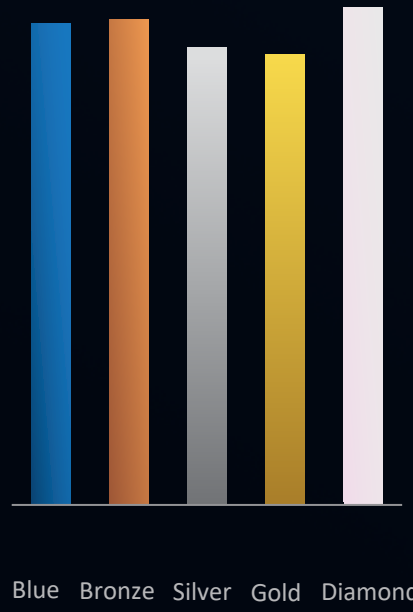


Composite UX



Vitality Money correlations are promising

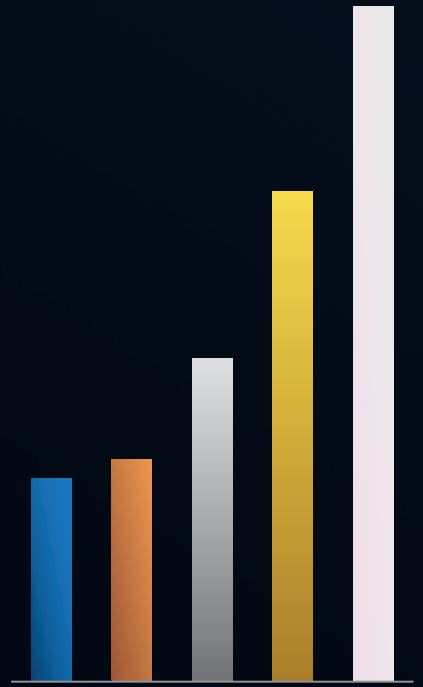
Credit utilisation



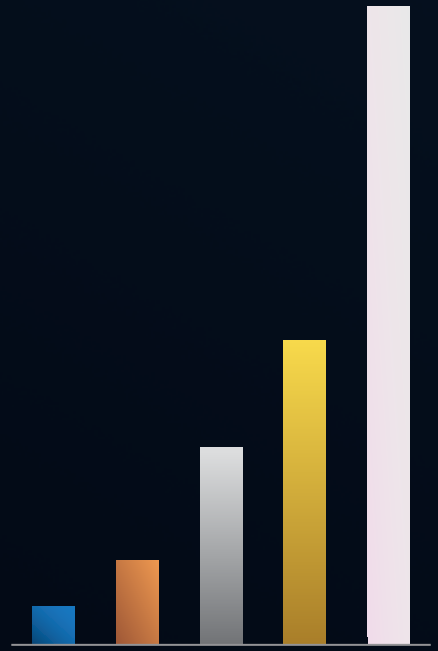
Deposits



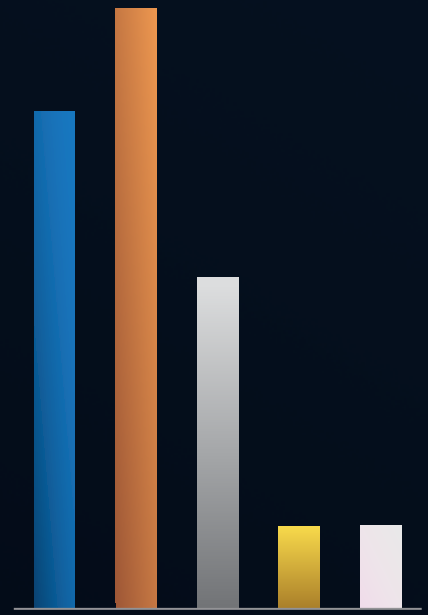
Spending



Rewards



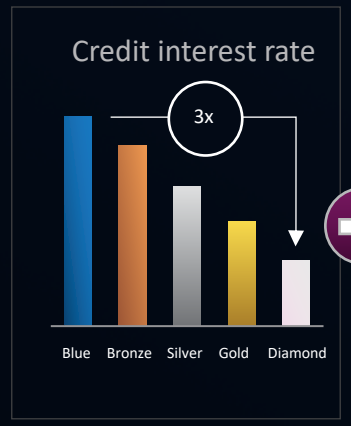
Defaults



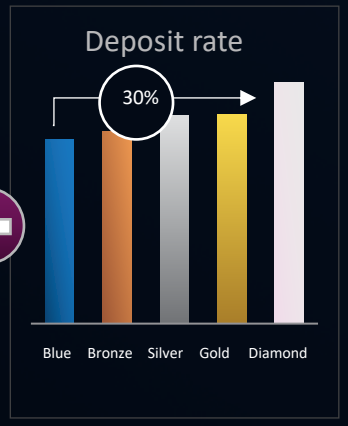
The economics of Vitality Shared-Value Banking

Member

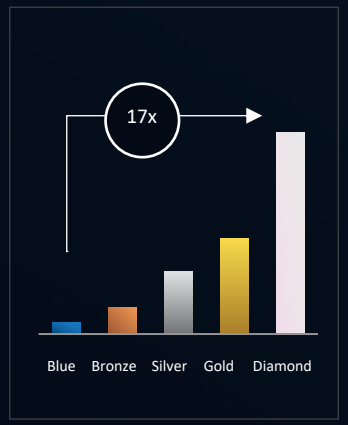
Credit



Deposits



Rewards

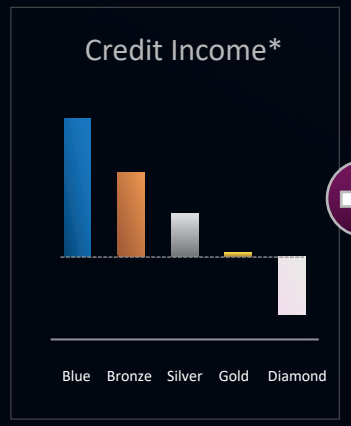


Shared Value

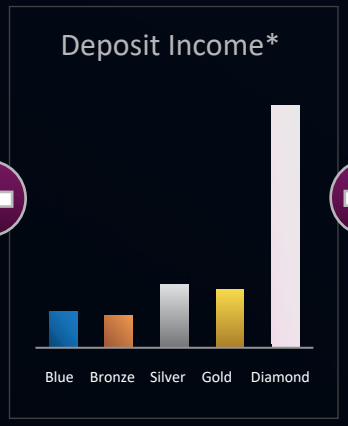


Bank

Credit



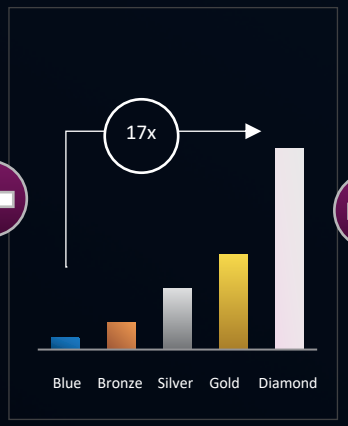
Deposits



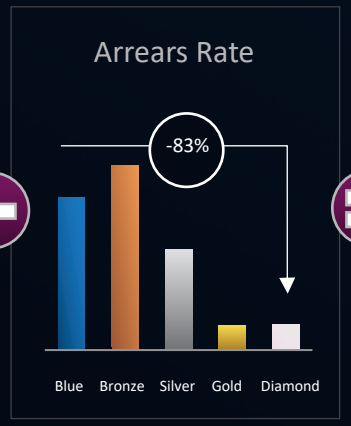
Spending



Rewards



Defaults



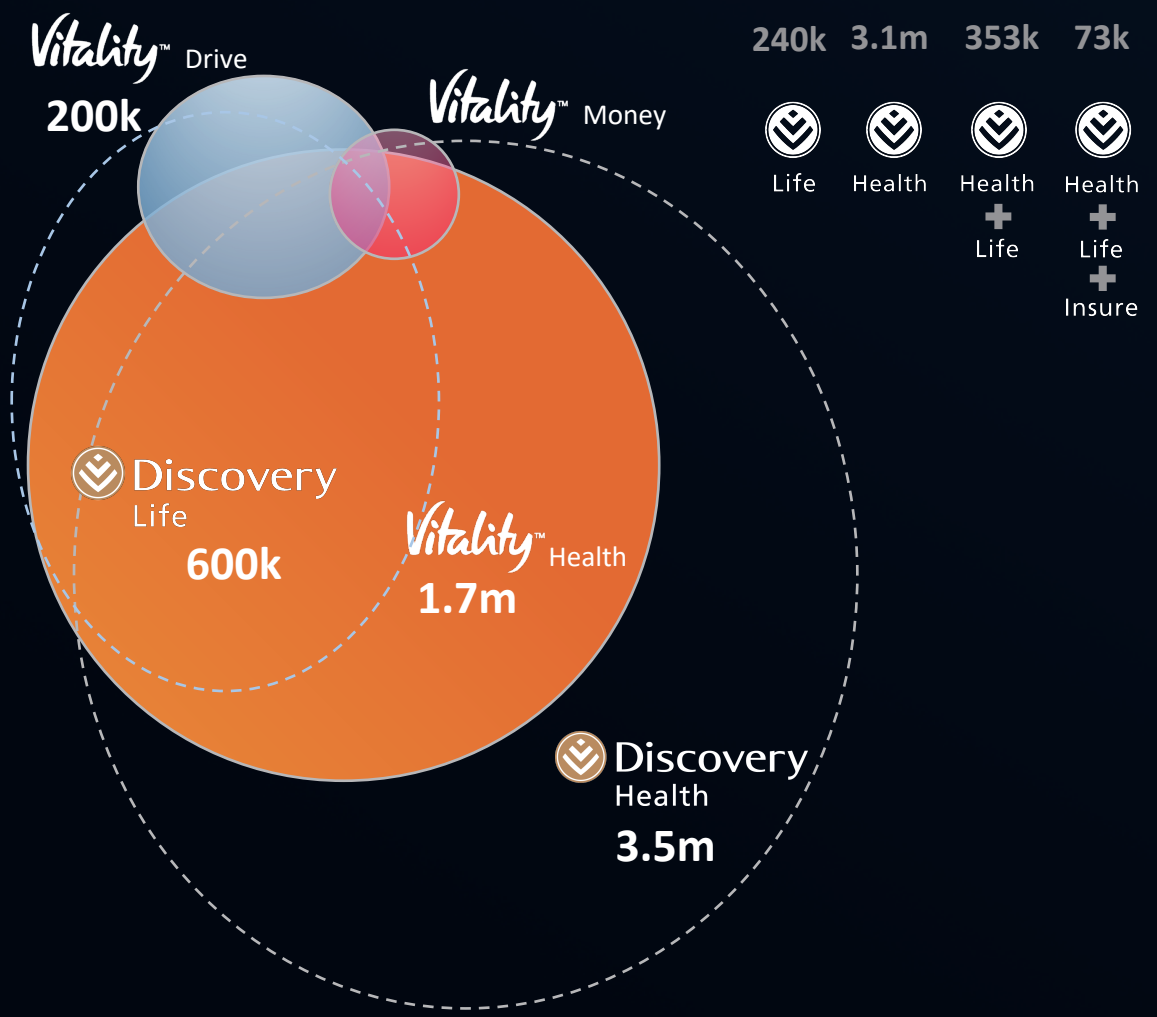
Shared Value



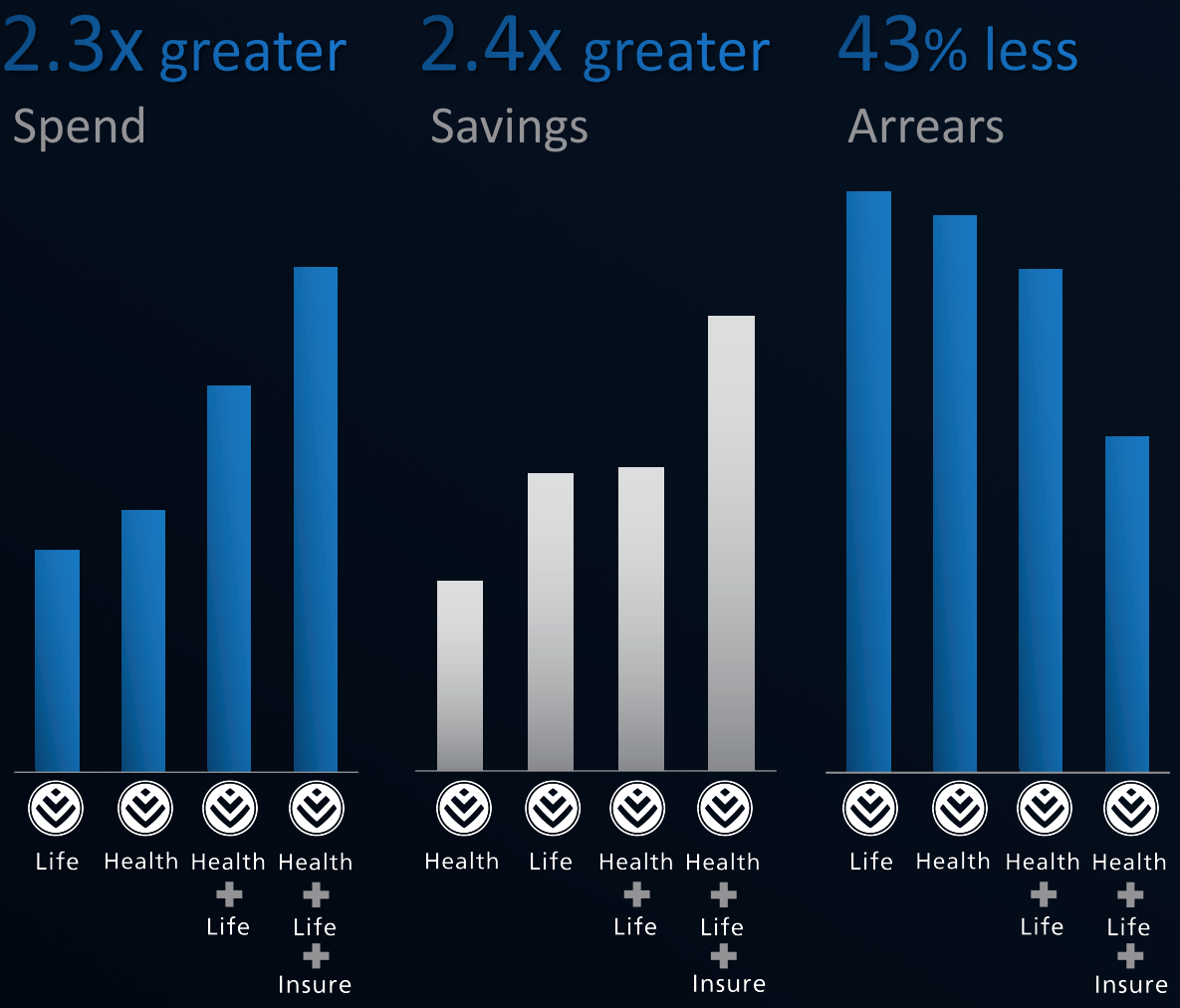
*Income on Deposits and Credits measured versus relative gains made to mid-point of equivalents deposits and advances at JIBAR 3-month and the Commercial Bank lending rate, calculated as a 7.4% comparative rate

Discovery Bank as a composite maker

Overlap of products and Vitality



Correlations by behavioural composite



Discovery Health

1

Growth in a stagnant market

2

Ensuring the increasing financial strength and competitive position of DHMS

3

Managing medical inflation while optimising cost and quality, and reducing administration costs while maximising service

Discovery Health

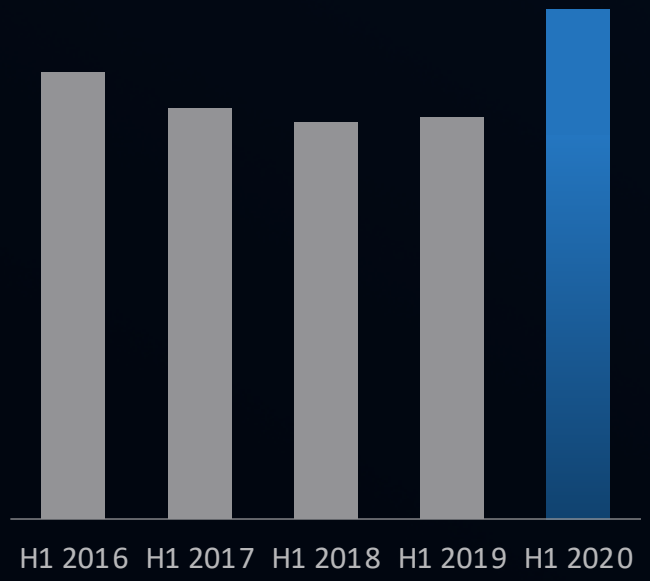
New business API

Rm

+26%

to R4 367m

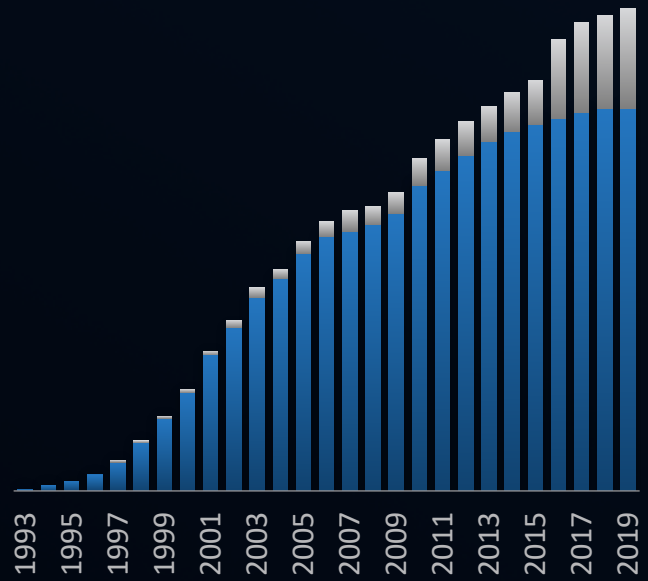
incl. take-on of new closed schemes



Membership

>3.5m

under administration

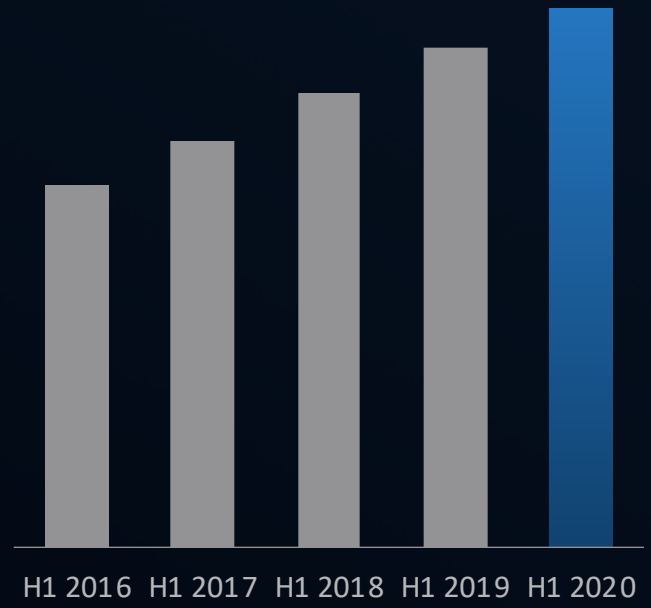


Normalised operating profit

Rm

+8%

to R1 575m



Growth in a challenging economic environment

New business API

Rm

+26%

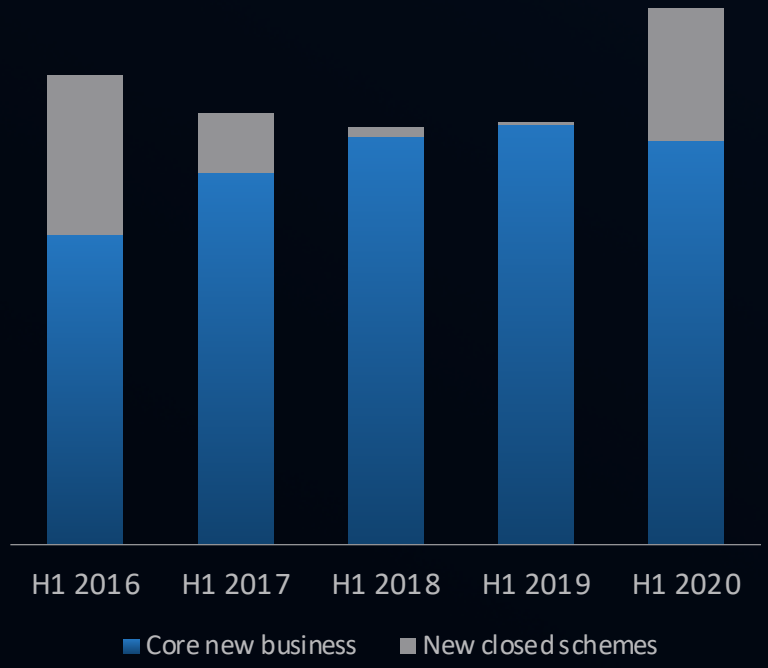
to R4 367m

incl. take-on of new closed schemes

-4%

to R3 289m

excl. take-on of new closed schemes

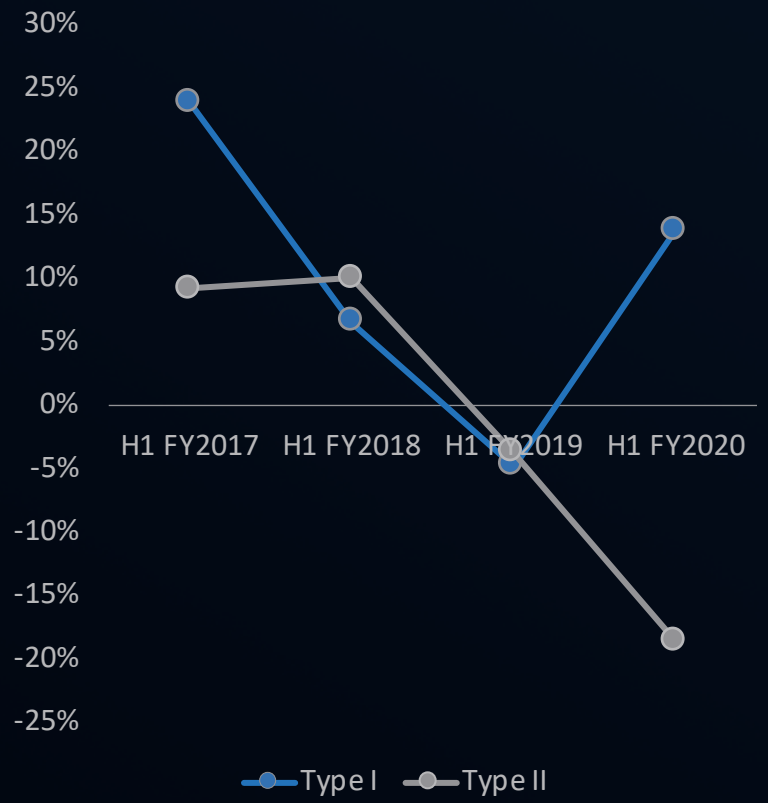


Decline in DHMS Type II new business

Type I: new employer groups

Type II: new employees on existing groups

DHMS new business growth rates



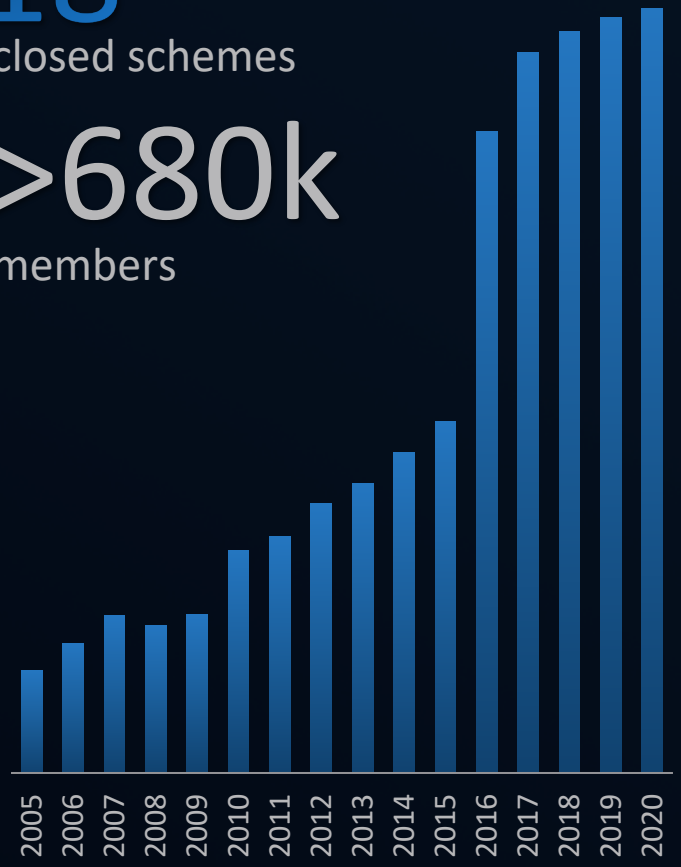
Growth in closed schemes

18

closed schemes

>680k

members

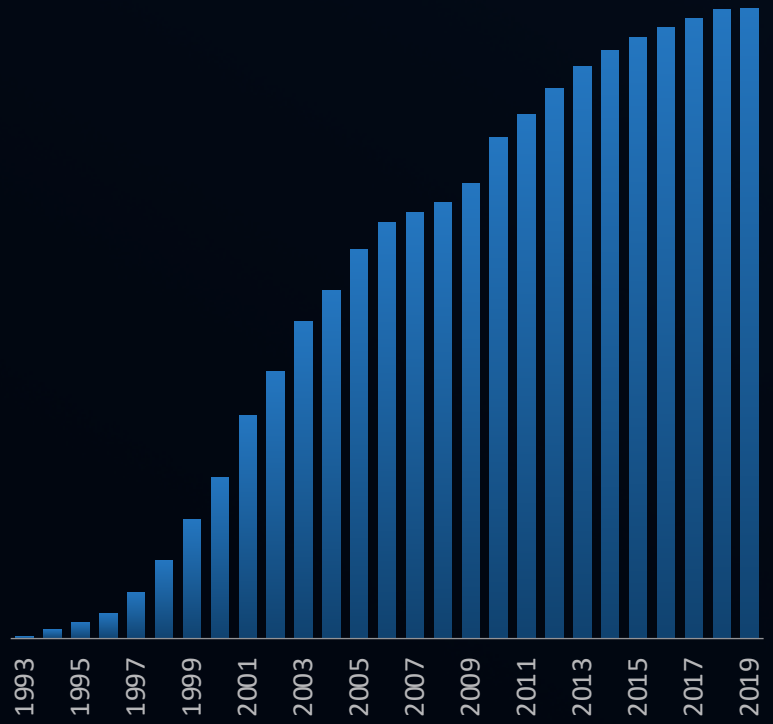


Discovery
Health Medical Scheme

Membership

56.6%

Market share[1]
as at Sep 2018



Value and competitive advantage

-16.7%

(2019: -16.6%)

Lower average premiums in the scheme market

7.38%

DHMS administration expenditure as % of gross contribution income

R6.8bn

Saved due to managed care interventions

Financial strength

AAA

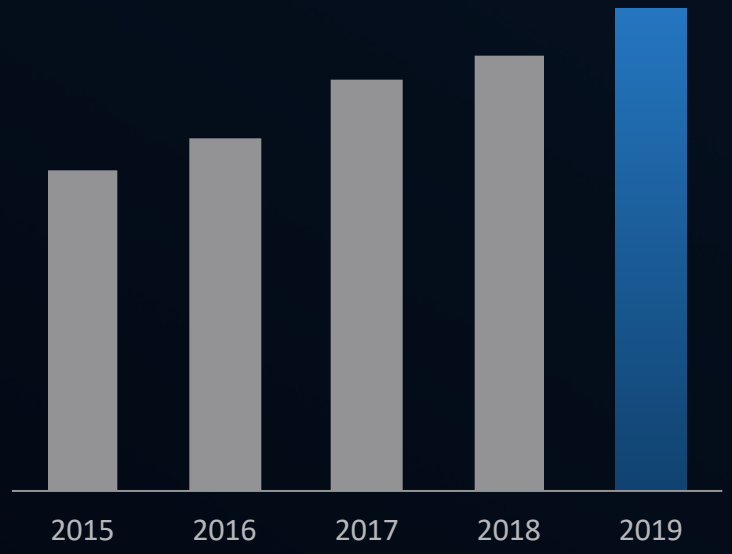
Credit rating

27.3%

Unaudited solvency

R19.5bn

Unaudited reserves



1 Council of Medical Schemes

Notes: Comparison amongst the seven schemes by size;
Source: Published results 2018; CMS Annual Report 2017-18

Excellence in the restricted scheme market: LA Health

Strong growth

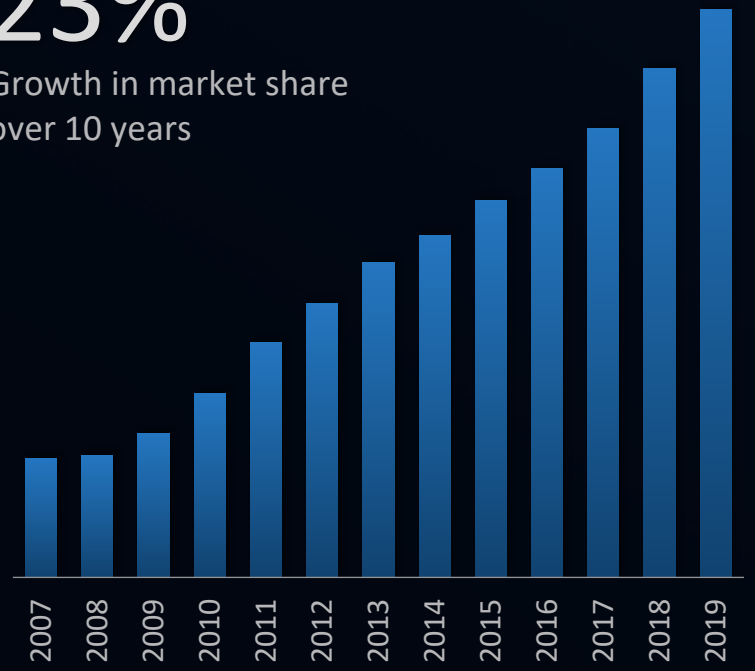
Annualised growth rate

13.9%

208k lives in 2019

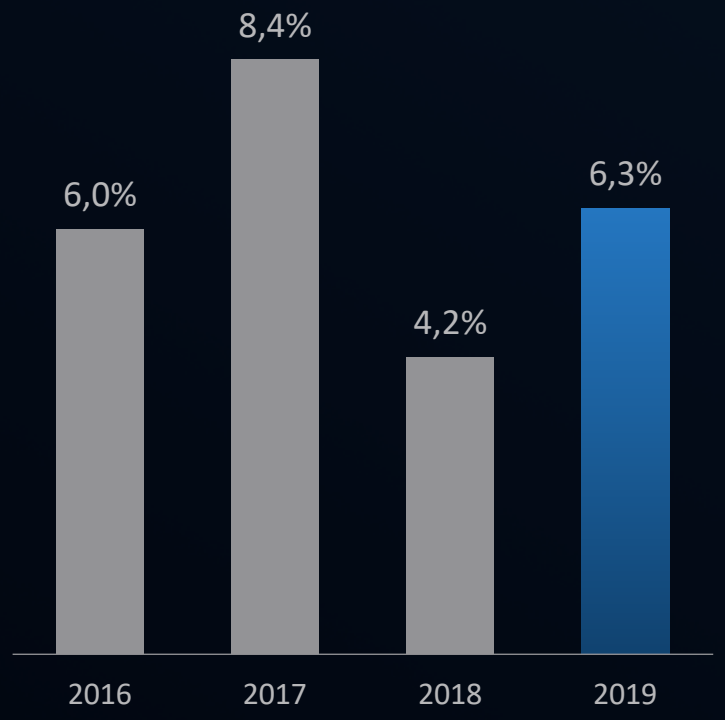
23%

Growth in market share over 10 years



Competitive contributions

Contribution rate increases



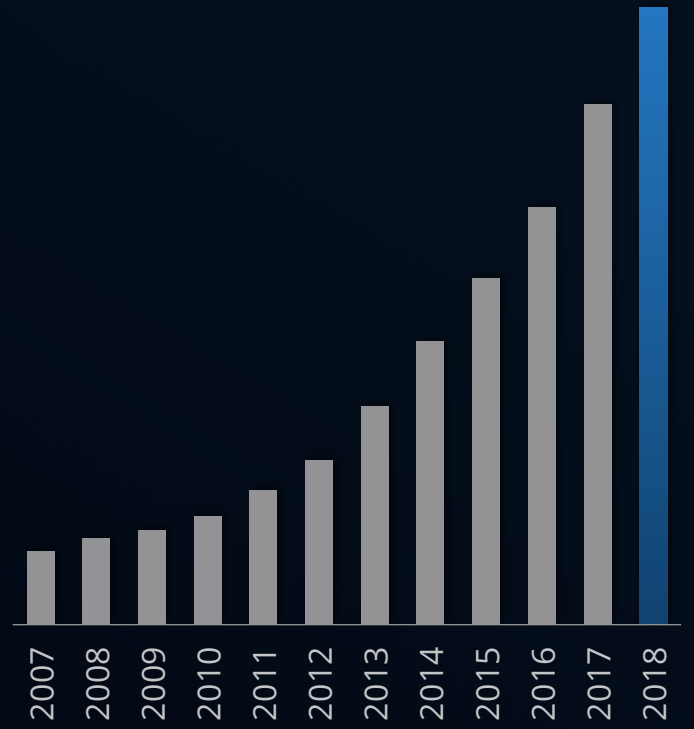
Financial security

42.7%

Unaudited solvency

R1.8bn

Unaudited reserves



Managing medical inflation: hospital admissions attributable for a large proportion of total claims costs

53%

Of DHMS claims expenditure in 2018 (risk + MSA) spent on hospitals

R30.1bn

Paid for hospital admissions

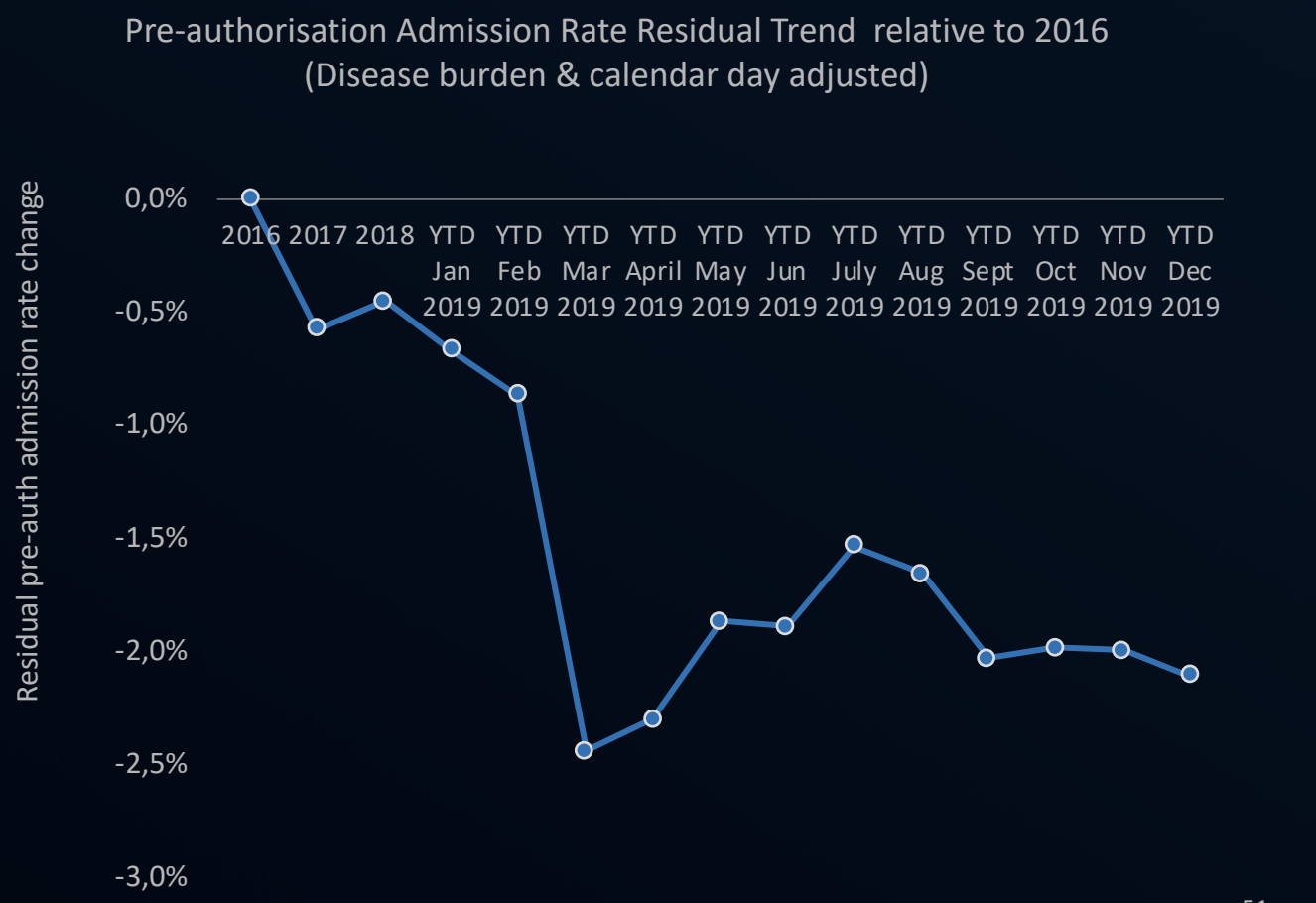
663 861

hospital admissions

R1.1bn

Paid for 500 sickest families

Hospital benefit managers have a significant impact on admission rate

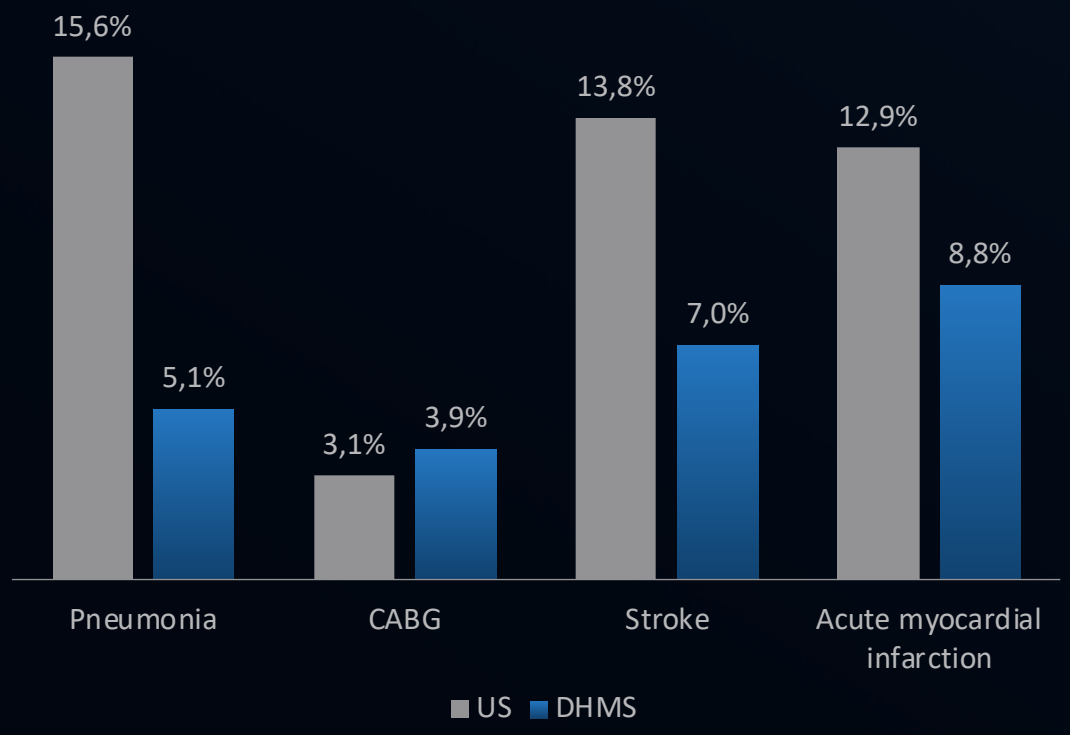


Ensuring superior quality of care for members

Condition-specific mortality rates

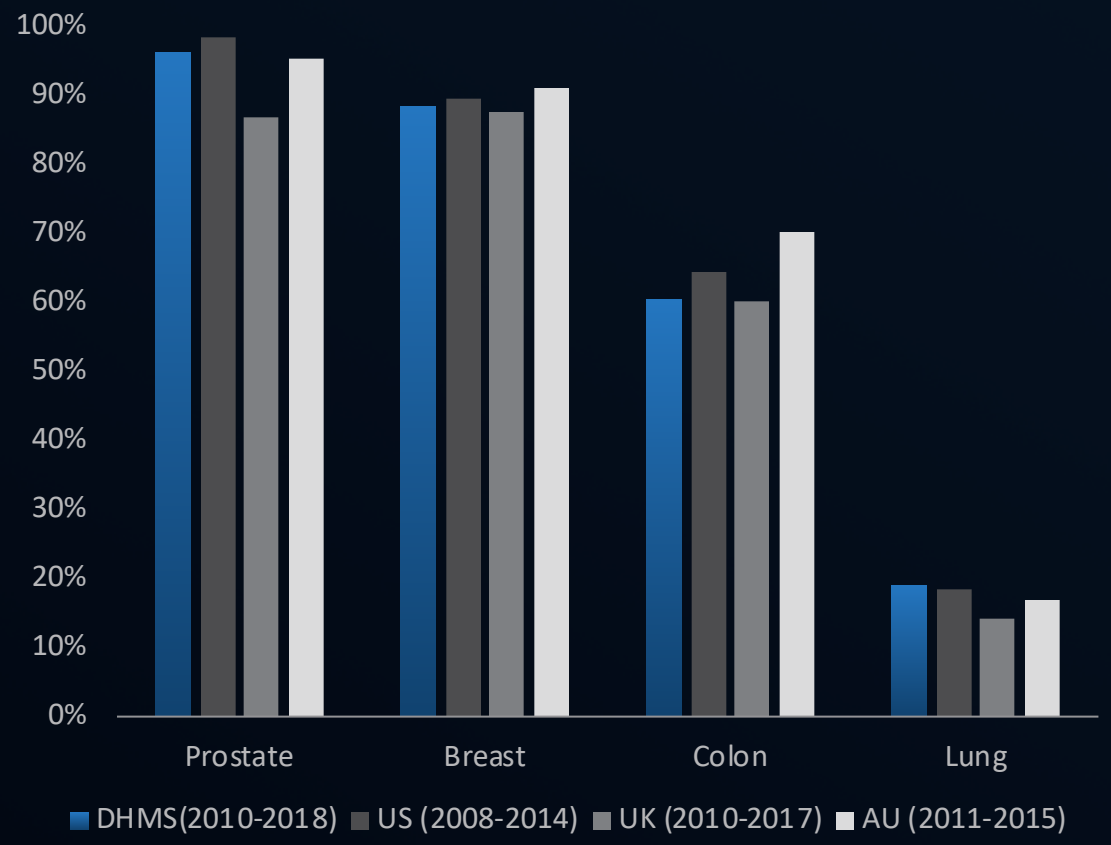
2016-2018

Measuring and reporting condition-specific mortality as a lead outcomes measure of hospital system performance



US data based on outcomes from Centers for Medicare and Medicaid Services

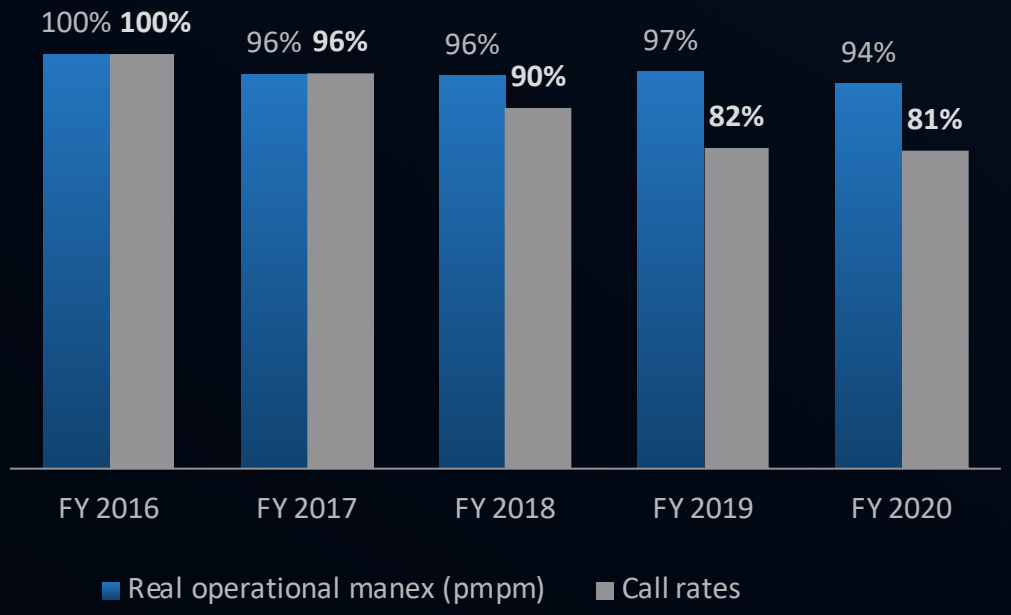
Cancer: five-year relative survival rate



US: SEER
UK: Public Health England
UK Prostate: Office for National Statistics (2013-2018)
AU : Australian Institute of Health and Welfare

Ongoing investment in technologies to optimise operational efficiency and service levels

Declining manex costs and call rates



6%
Decrease in DH real operational manex pmpm from 2016 to 2019 administrating 19 medical schemes

19%
Decrease in call rate from *2015 to 2019*

Substantial investment in new technology

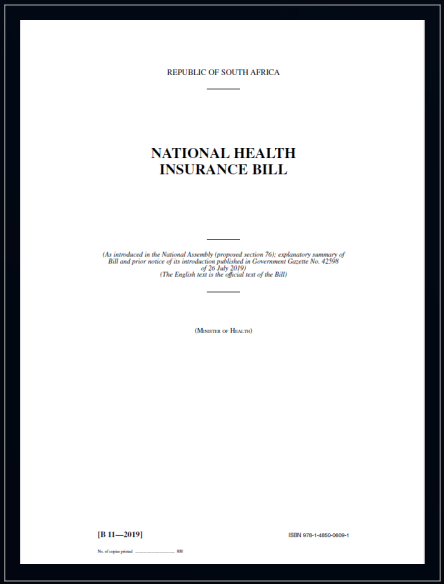
Spend on new technology projects
>R214m

Projected three-year return
Discovery Health Medical Scheme **R847m**
Discovery Health **R293m**

Strategic theme	Projects
1. Business process improvement	21
2. Customer experience	13
3. Data science & ops intelligence	6
4. New technology	12
5. Risk management	13
TOTAL	**65**

Managing a complex regulatory environment

NHI



REPUBLIC OF SOUTH AFRICA

NATIONAL HEALTH INSURANCE BILL

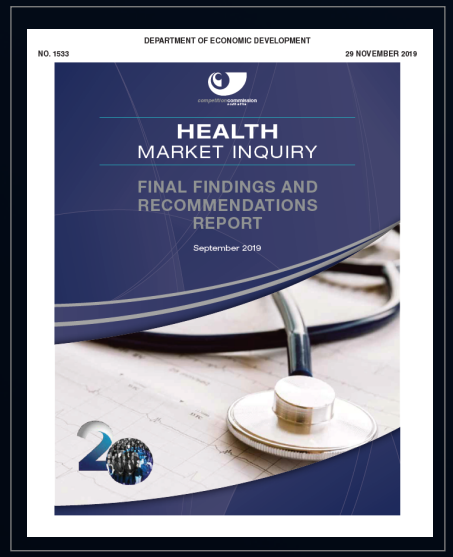
(As introduced in the National Assembly (proposed section 76); explanatory summary of Bill and prior notice of its introduction published in Government Gazette No. 42598 of 26 July 2019)
(The English text is the official text of the Bill)

(Minister of Health)

[B 11—2019]

ISBN 978-1-4850-0608-1

HMI



DEPARTMENT OF ECONOMIC DEVELOPMENT

NO. 1533 29 NOVEMBER 2019

HEALTH MARKET INQUIRY

FINAL FINDINGS AND RECOMMENDATIONS REPORT

September 2019

Section 59 hearings



CMS Council for Medical Schemes

CIRCULAR

Reference: Fraud, Waste and Abuse Summit
Contact person: Zodwa Ngidi
Tel: 012 431 0445
Fax: 012 431 0636
E-mail: z.ngidi@medicalschemes.com
Date: 5 February 2019

Circular 9 of 2019: CMS presents the inaugural Fraud, Waste and Abuse summit

The Council for Medical Schemes (CMS) is proud to announce that the inaugural Fraud, Waste and Abuse summit will take place on 28 February to 1 March 2019 at Sandton Convention Centre in Johannesburg.

In fulfilling part of its regulatory mandate, the CMS is looking at mechanisms to address the scourge of fraud, waste and abuse in the medical schemes industry. This summit will bring together stakeholders in the private healthcare sector including medical schemes, administrators, managed care organisations, policy makers and other role players to discuss strategies for dealing with fraud, waste and abuse towards a sustainable industry.

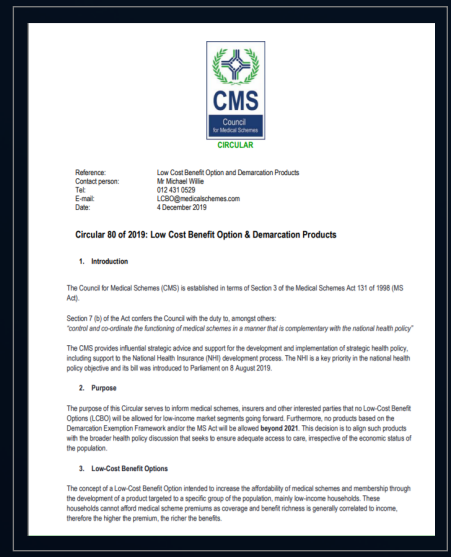
The summit aims to deal with fraud, waste and abuse for industry sustainability by:

1. The signing of an industry agreement or charter where all stakeholders pledge to contribute to combating fraud, waste and abuse, in line with set standards.
2. Establishing standards for the industry to effectively deal with fraudulent activities. This includes fair sanctions for convicted fraudsters.
3. The establishment of a structure to continuously deal with fraud, waste and abuse post the summit.

The summit cost is R2 500 per attendee and includes a conference pack and entry to a gala dinner.

- To register, please click here.
- The programme can be viewed on the summit's website, www.fwasummit.co.za.

Circular 80



CMS Council for Medical Schemes

CIRCULAR

Reference: Low Cost Benefit Option and Demarcation Products
Contact person: Mr Michael Willie
Tel: 012 431 0529
E-mail: LCBO@medicalschemes.com
Date: 4 December 2019

Circular 80 of 2019: Low Cost Benefit Option & Demarcation Products

1. Introduction

The Council for Medical Schemes (CMS) is established in terms of Section 3 of the Medical Schemes Act 131 of 1998 (MS Act).

Section 7 (b) of the Act confers the Council with the duty to, amongst others:
"control and co-ordinate the functioning of medical schemes in a manner that is complementary with the national health policy"

The CMS provides influential strategic advice and support for the development and implementation of strategic health policy, including support to the National Health Insurance (NHI) development process. The NHI is a key priority in the national health policy objective and its bill was introduced to Parliament on 6 August 2019.

2. Purpose

The purpose of this Circular serves to inform medical schemes, insurers and other interested parties that no Low-Cost Benefit Options (LCBO) will be allowed for low-income market segments going forward. Furthermore, no products based on the Demarcation Exemption Framework and/or the MS Act will be allowed **beyond 2021**. This decision is to align such products with the broader health policy discussion that seeks to ensure adequate access to care, irrespective of the economic status of the population.

3. Low-Cost Benefit Options

The concept of a Low-Cost Benefit Option intended to increase the affordability of medical schemes and membership through the development of a product targeted to a specific group of the population, mainly low-income households. These households cannot afford medical scheme premiums as coverage and benefit richness is generally correlated to income, therefore the higher the premium, the richer the benefits.

Discovery Life

1

Optimising growth and quality of new business

2

Achieving positive operational experience variances

3

Ensuring balance and correct correlations within the Shared Value business model

4

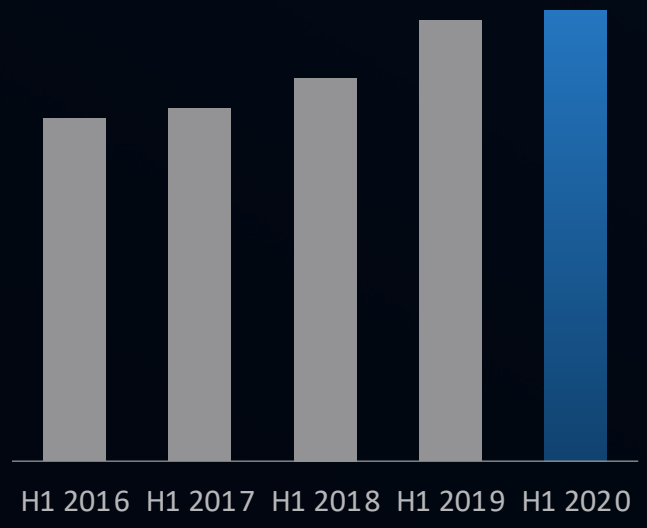
Ensuring products have relevance to our customers through value and engagement

Discovery Life

Core new business API

+2%

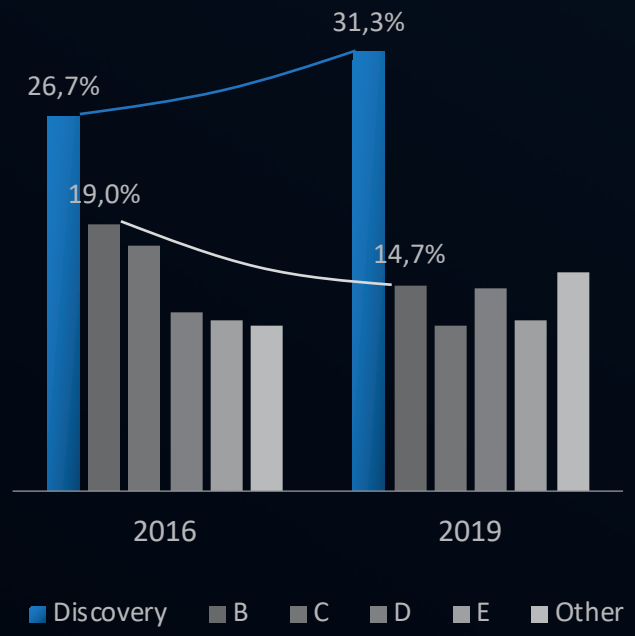
to R1 240m



Market share

31%

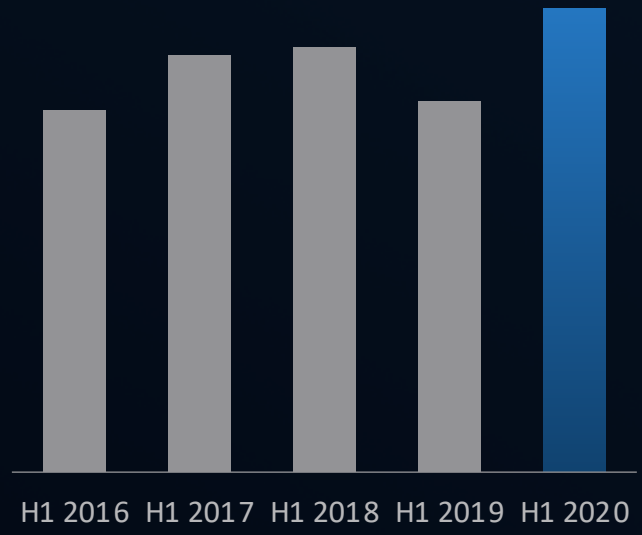
of retail affluent market



Normalised operating profit

+25%

to R1 875m

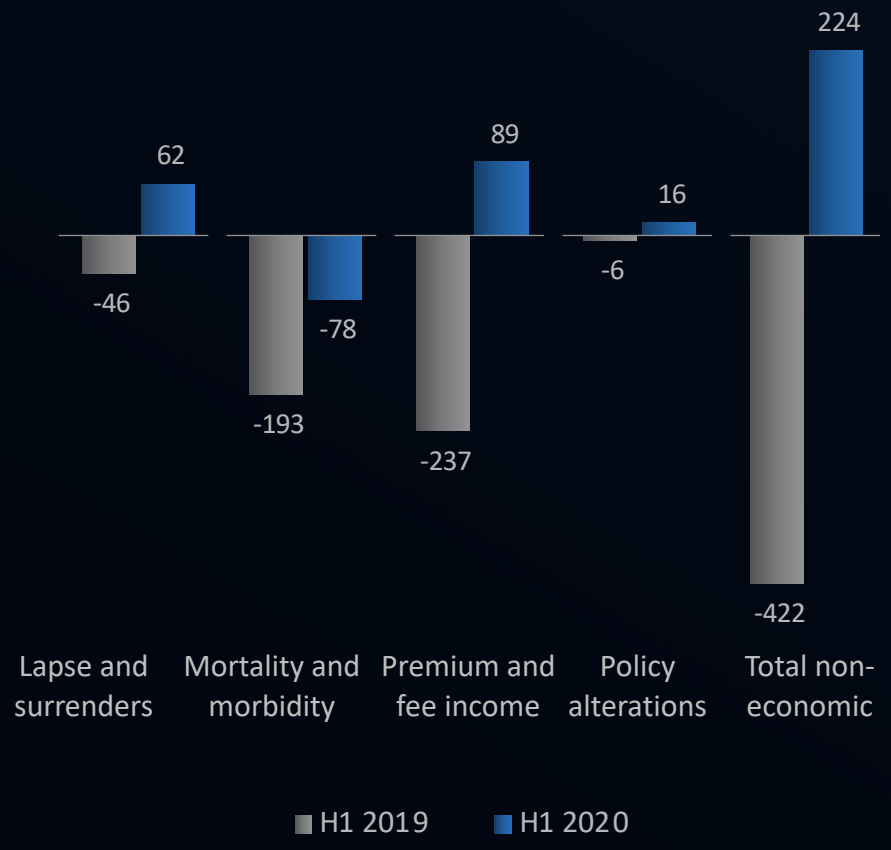


For 9 months January – September 2019

Positive experience variances

Positive non-economic experience variances

(R million)

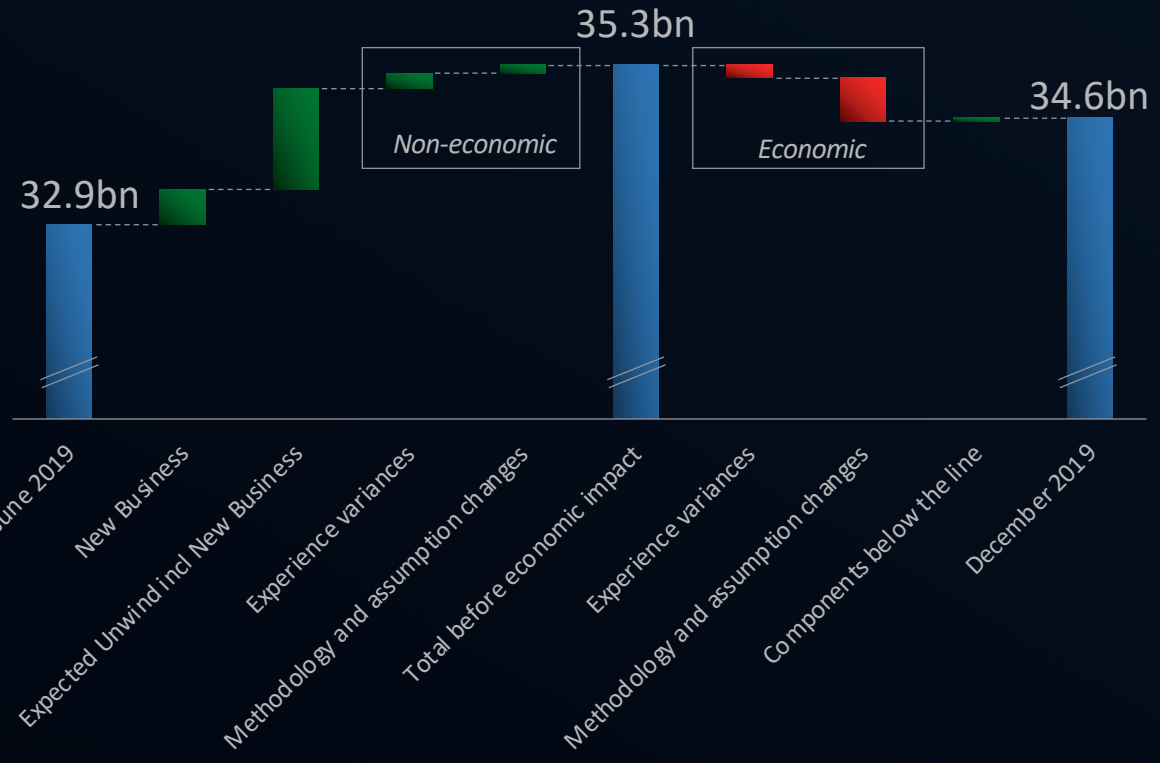


Significant improvement in experience variances

Analysis of change in embedded value, Life and Invest (R million)

+5%
to R35bn from June 2019

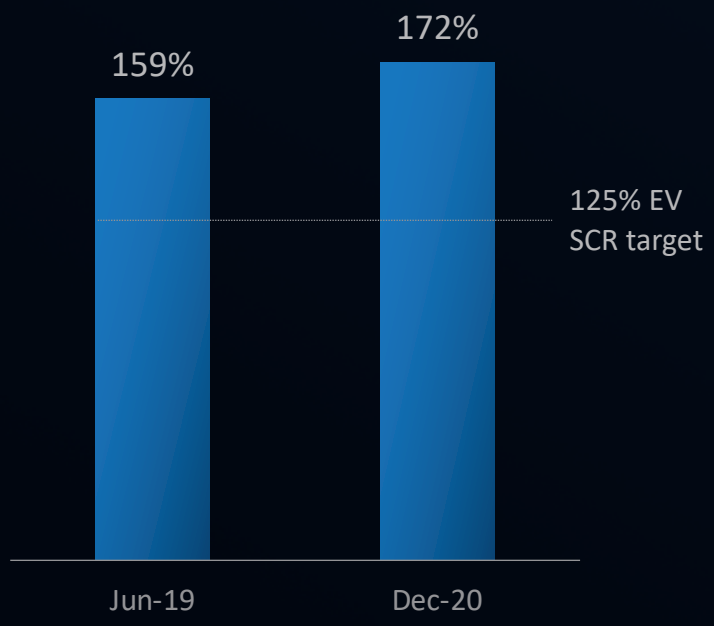
+10%
to R35bn from December 2018



Robust capital and cash flow

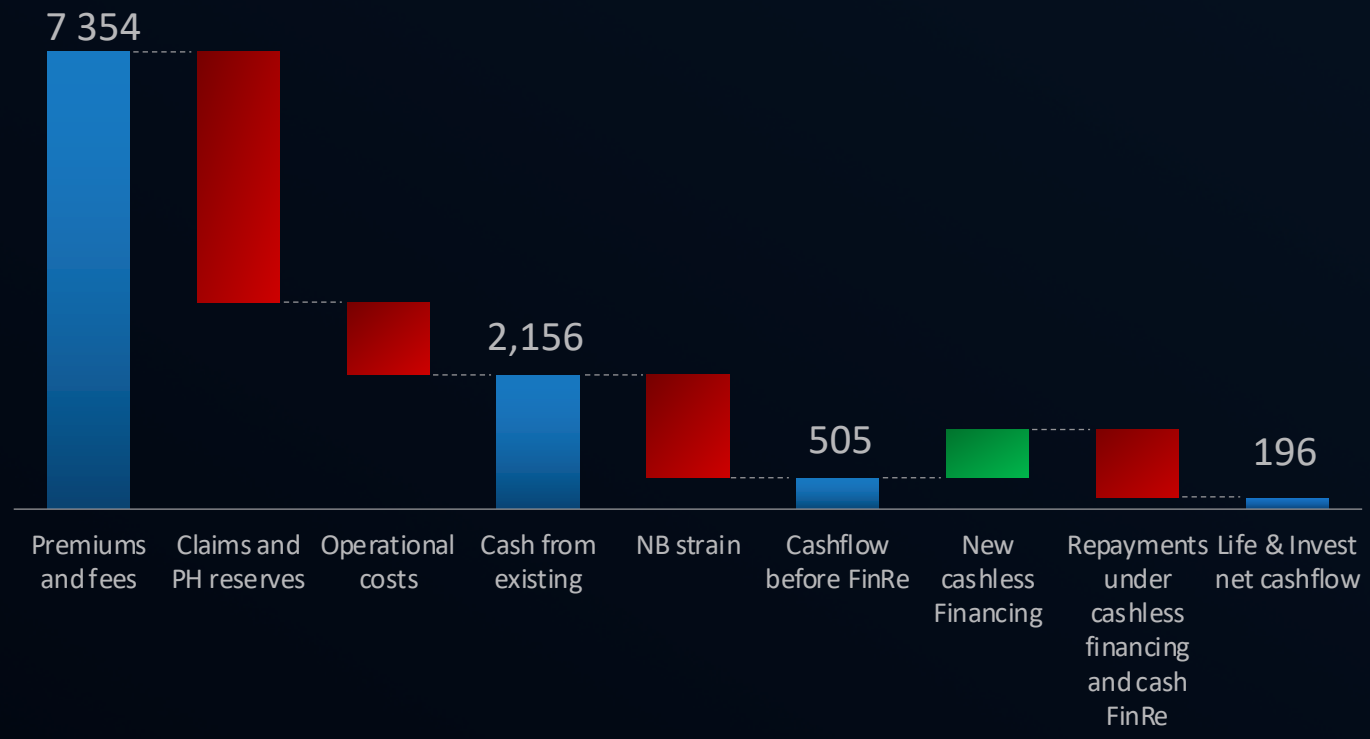
Improvement in capital

SCR cover ratio



Cash emergence as planned

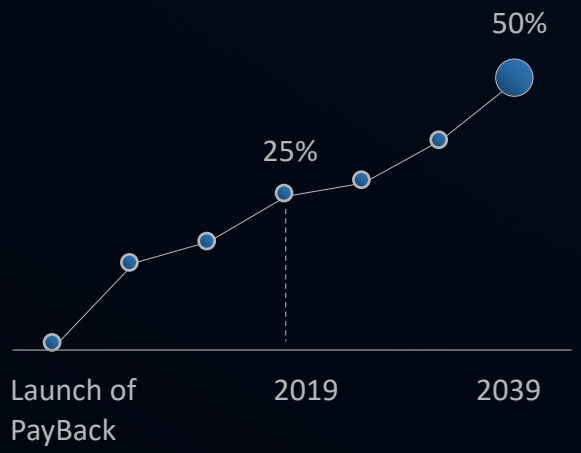
Rm



Significant value being generated for clients

PayBack value

Projected pay-outs to healthy clients relative to claimants



R1.2bn

PayBacks paid[1] in 2019

Premium discounts

25%

Average new business premium discount in FY2019

15%

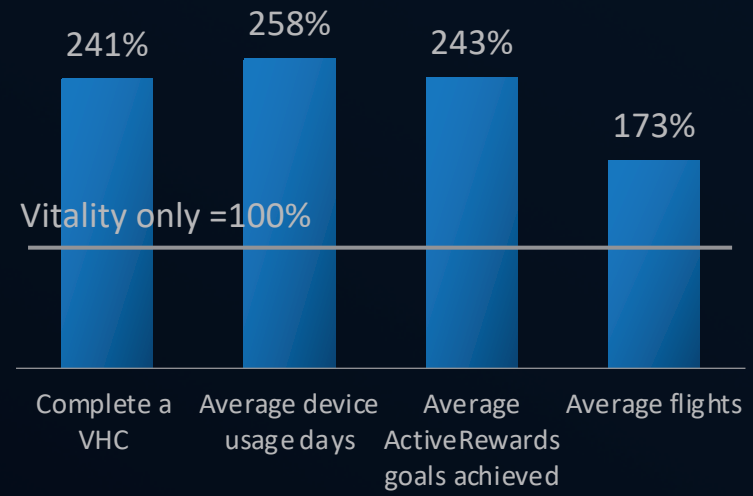
Average premium discount on inforce book as at June 2019

R1.6bn

Premium saving across clients[2]

Strong engagement

Vitality members with Life are more engaged



Life members' engagement in 2019:

420k Flights

9m Gym days

1 For calendar year 2019

2 For financial year 2019

Discovery Invest

1

Growing new business and assets under management in a slow market

2

Evolving a unique long term Shared Value platform model in a market experiencing commoditisation and market pressure

3

Ensuring, measuring and demonstrating superior overall financial outcomes for our customers

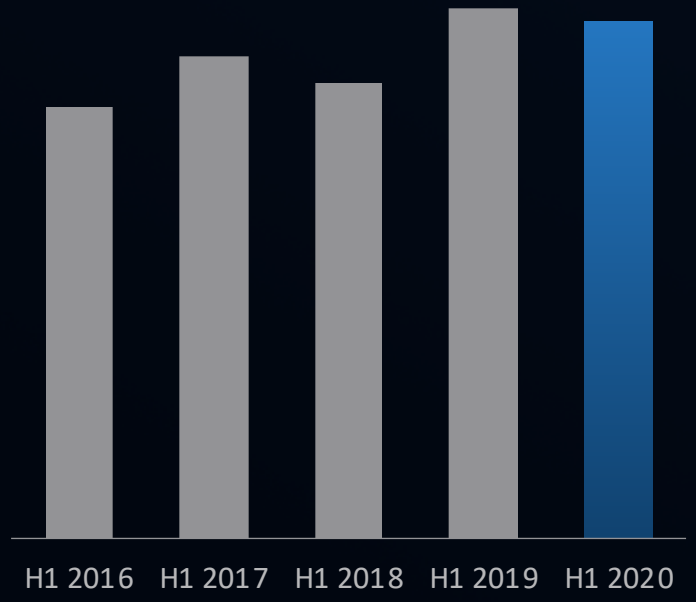
Discovery Invest

New business API

Rm

-2%

to R1 357m

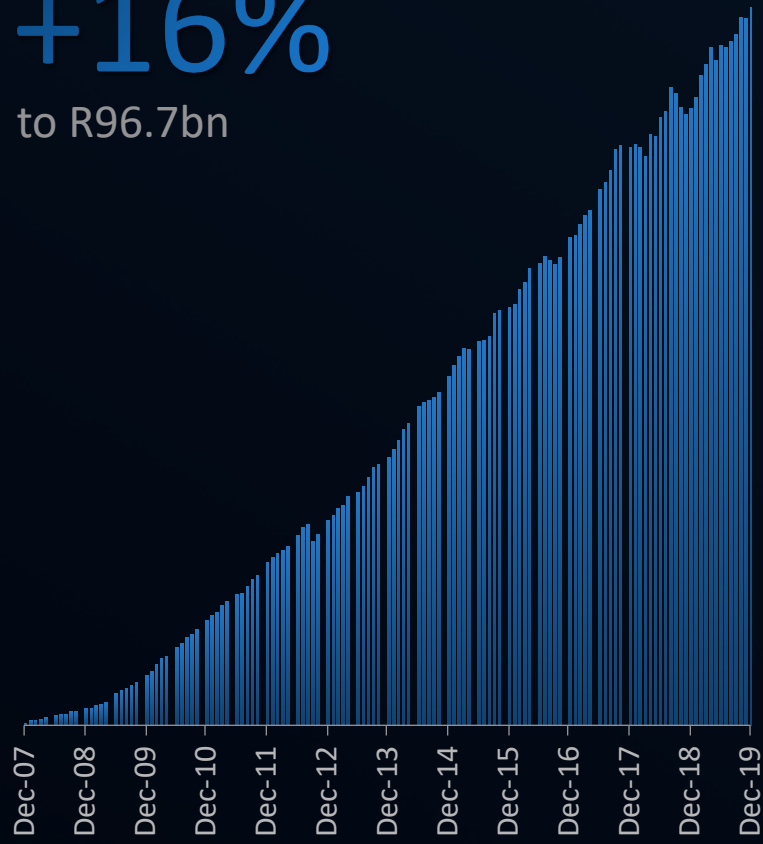


Assets under administration

Rbn

+16%

to R96.7bn

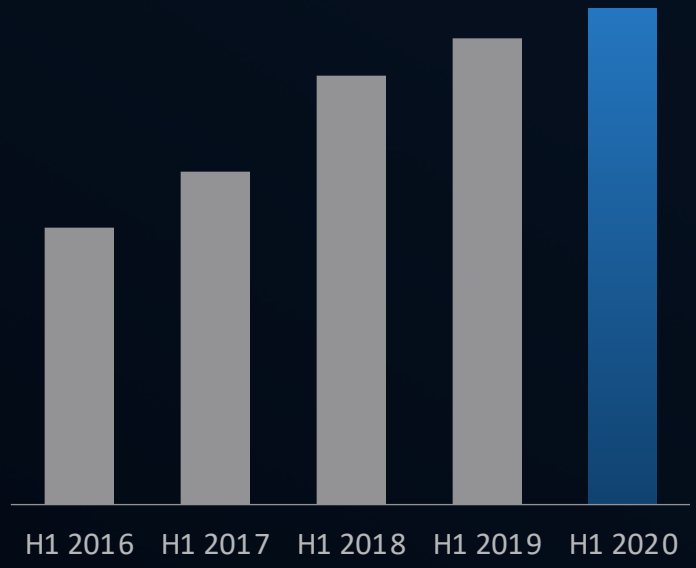


Normalised operating profit

Rm

+7%

to R485m



Evolution of the business into a Shared-Value platform

Best-of-breed Shared-Value platform



Boosts for healthy behaviour

Saving longer and more

Term to retirement	Save longer	Save more
10 - 14	7.5%	10%
15 - 19	10%	12.5%
20 - 24	12.5%	15%
25-34	15%	20%
35+	20%	25%

Managing behaviour

Extra return

Example for a member on Gold Vitality Drive status

VITALITY MONEY	VITALITY HEALTH: Bronze	Silver	Gold	Diamond
Silver	+1.25%	+1.35%	+1.50%	+1.65%
Gold	+1.40%	+1.50%	+1.65%	+1.80%
Diamond	+1.55%	+1.65%	+1.80%	+1.95%

Withdrawing responsibly

Yearly retirement income %	Vitality status *Up to*	+ Health goals *Up to*
2.50% - 3.00%	30.00%	20.00%
3.51% - 4.00%	15.00%	10.00%
4.51% - 5.25%	7.50%	6.00%
6.01% - 8.00%	2.50%	2.00%

Demonstrable outcomes

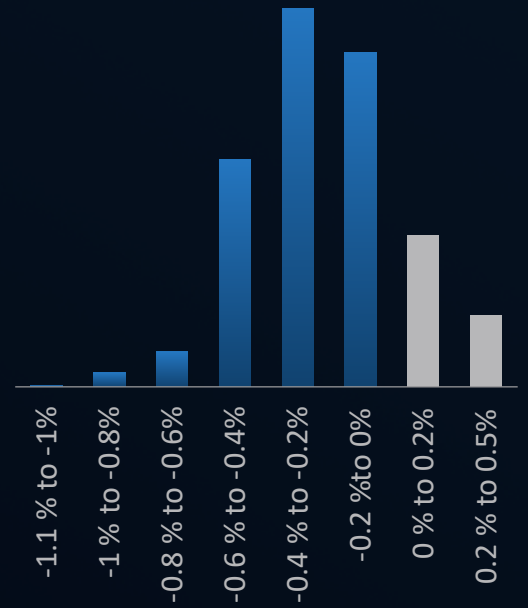
12.7%
lower drawdowns

78.6%
invested in preferred funds

13.5%
lower lapse rates

R10.4bn
value accrued or paid to clients

Effective administration fee net of boosts*



81.6%
of clients effectively paying negative fees

*For lump sum RAs and Preservers only

Discovery
Insure

1

Achieving quality growth in the mass affluent space toward being the largest in new business

2

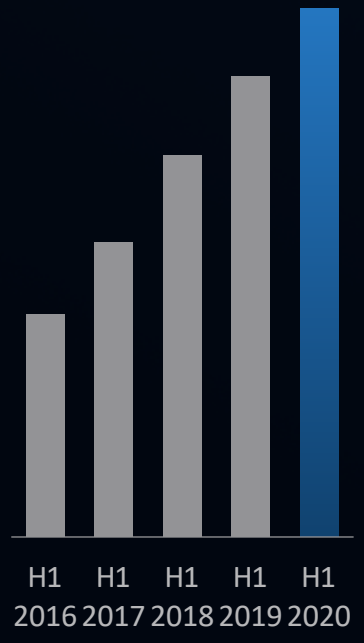
Ensuring integrity of the Shared-Value model so that with duration profit, scale and materiality emerge

Discovery Insure

Gross written premium

+15%

to R1 785m*

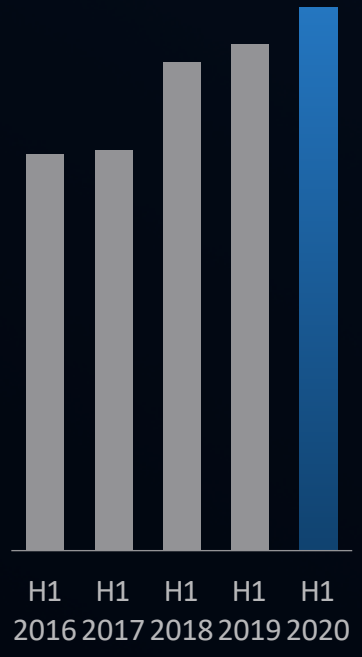


*Personal Lines only

New business API

+7%

to R551m*

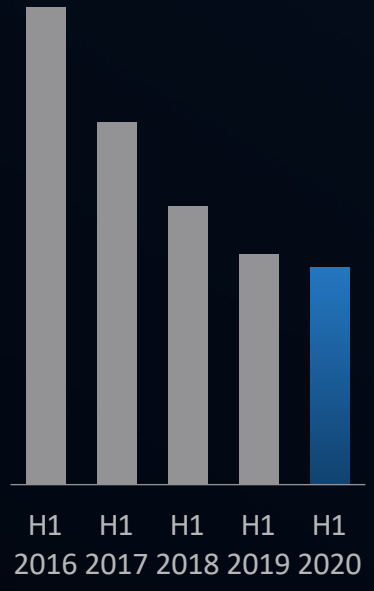


*Personal Lines only

Combined ratio

-1%

to 96%*



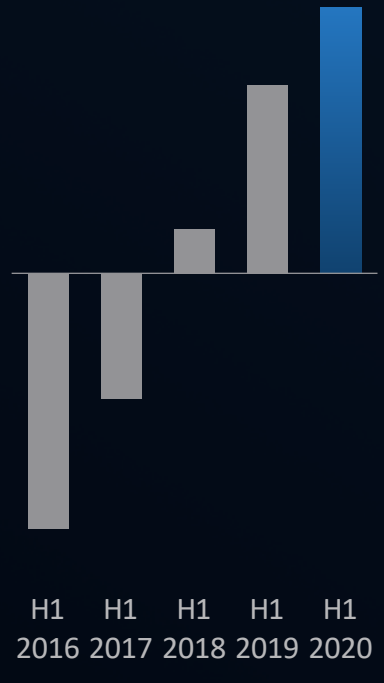
*Personal Lines only

Normalised operating profit

+21%

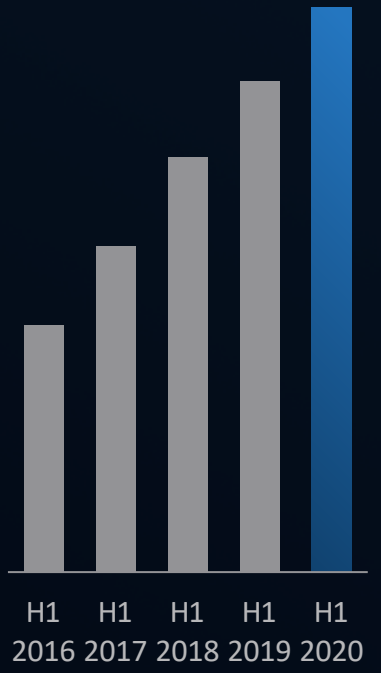
to R75m

(excl. Commercial)



Market share in GWP

6%

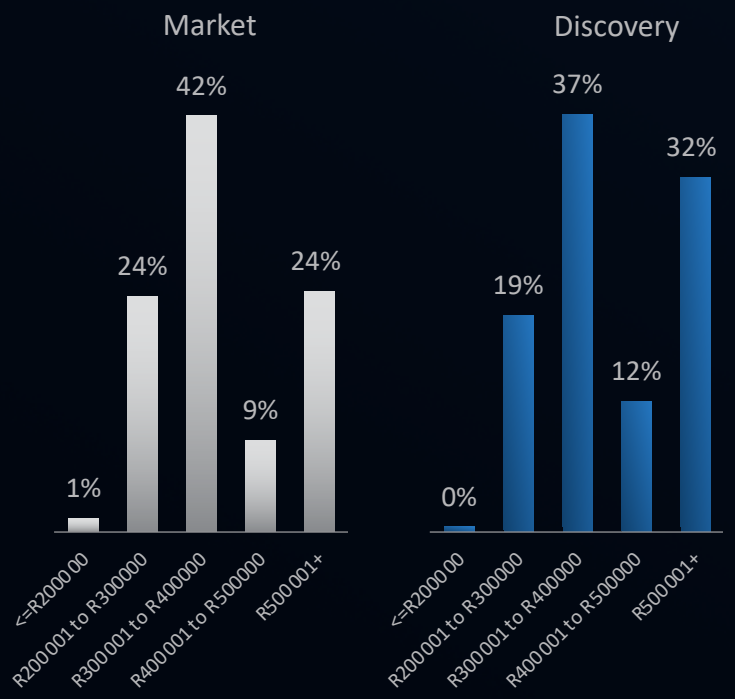


*Personal Lines only. Assumes 6% in GWP market growth since 2018

The model attracts policies yielding high values

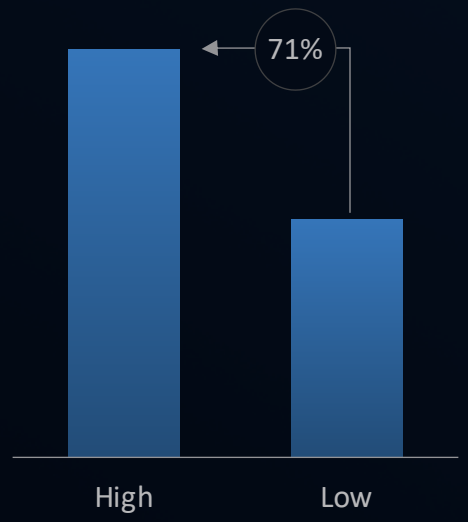
Attraction of higher-valued vehicles by sum assured

Proportion of vehicles covered by value



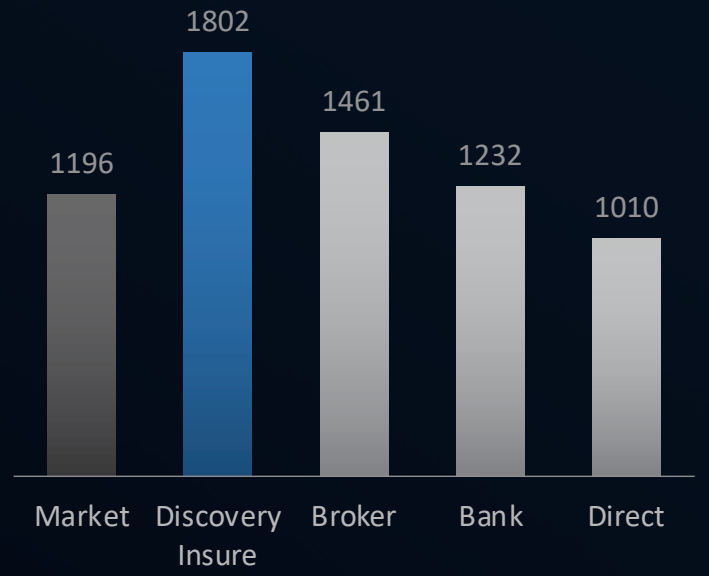
Higher sales conversion rate for policies with higher sums assured

Conversion rate



DSY has higher average premiums compared to the market

Average Premium

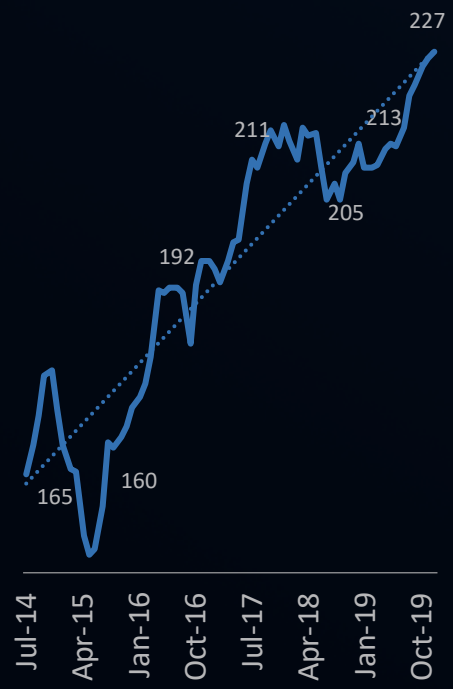


Market is based on passenger market information from NAAMSA https://www.naamsa.co.za/FlashResults

Higher sum assured policies have total asset value greater than R500,000; Lower sum assured policies have total assets value less than R500,000

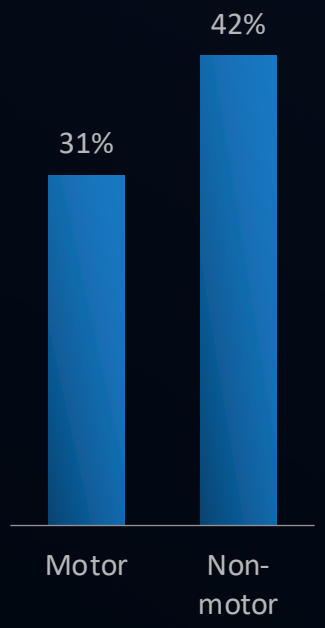
Improving efficiencies continually emerge to drive margins

Policies per staff headcount increasing

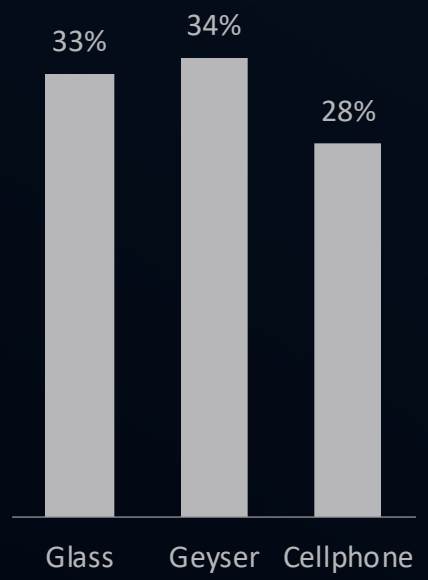


AI and tech are yielding cost savings

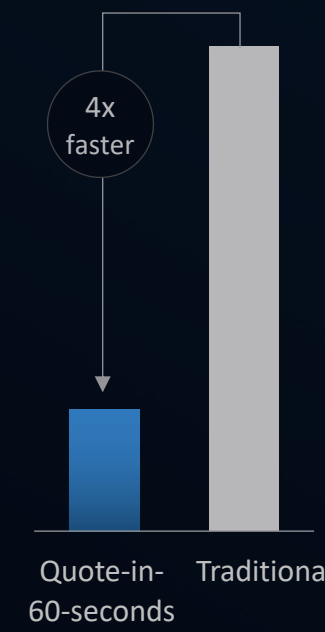
% claims captured digitally



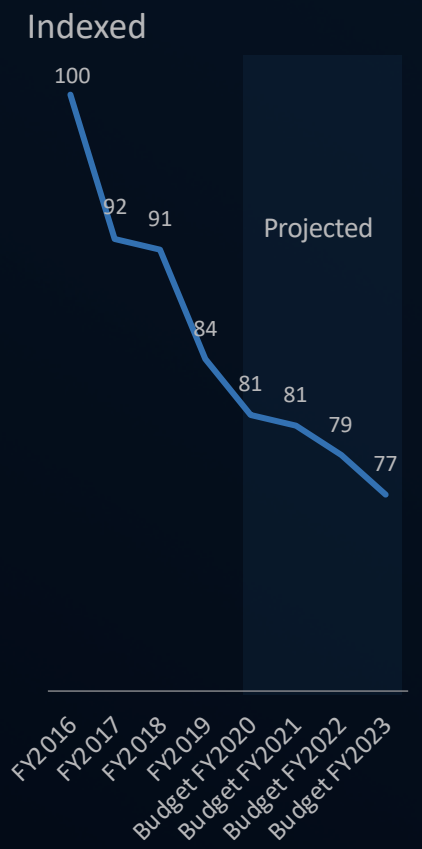
% claims auto-approved



Quoting time saved



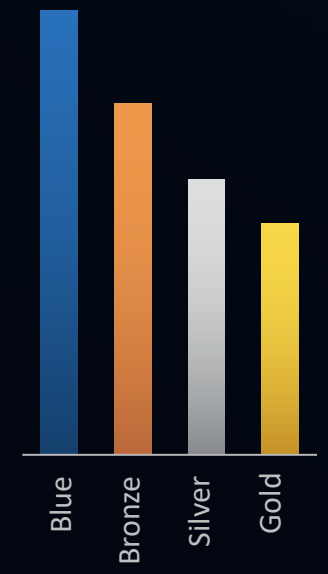
Expense ratio



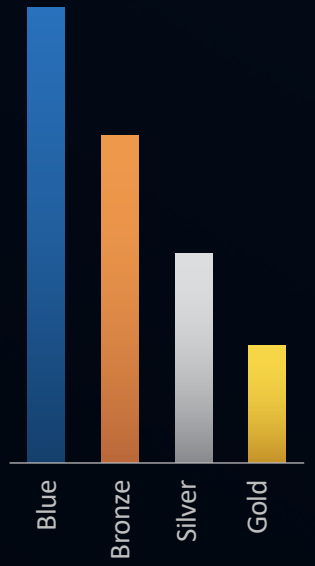
The quality of the book is encouraging and constantly improving

Shared-Value model causes selection and behaviour change

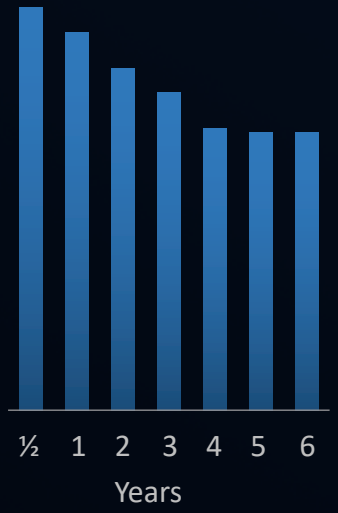
Loss ratio by status



Lapse ratio by status

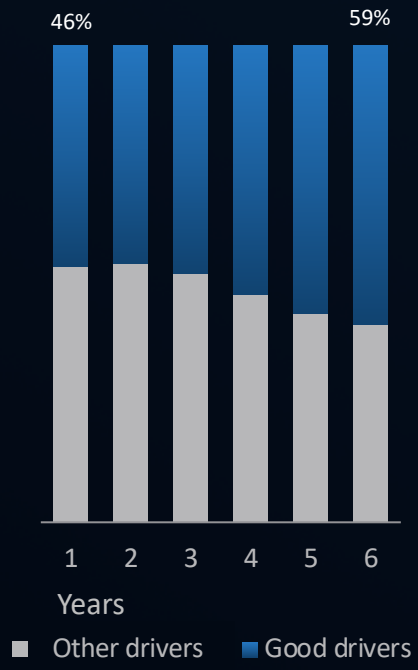


Loss ratio by duration

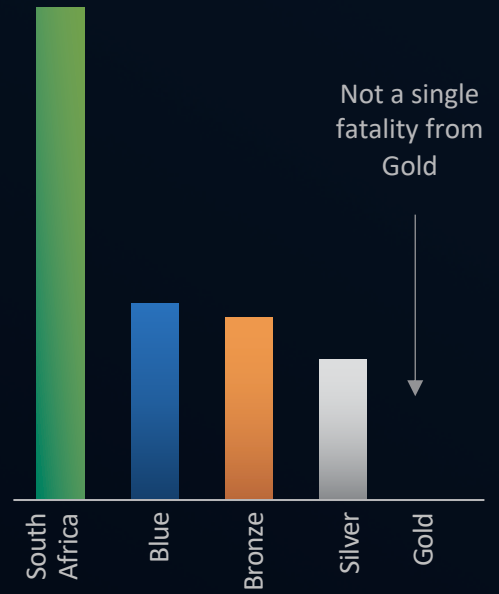


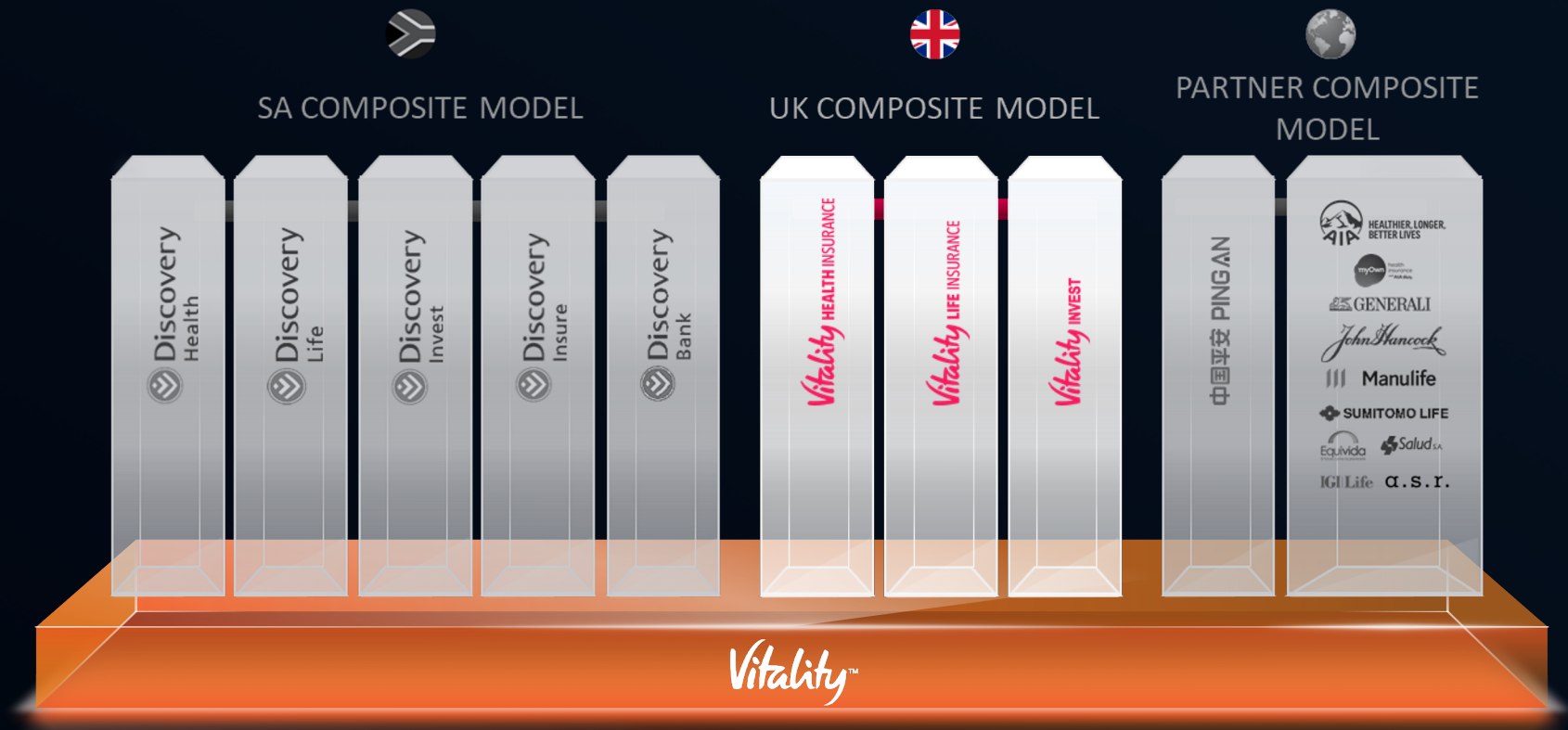
Creating a nation of great drivers

Good drivers by duration



Fatality Rate

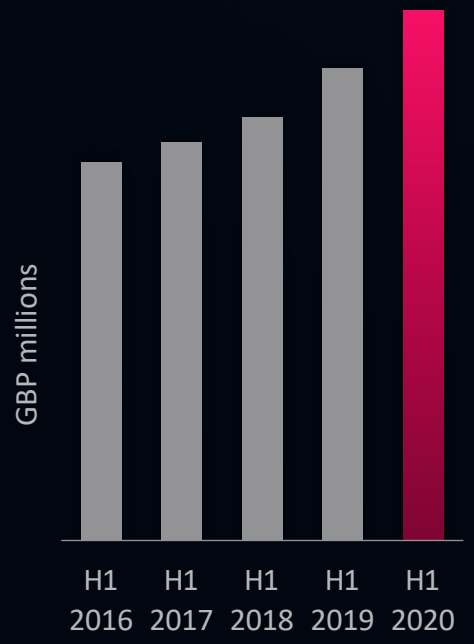



SA COMPOSITE MODEL
UK COMPOSITE MODEL
PARTNER COMPOSITE MODEL
Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Bank
Vitality HEALTH INSURANCE
Vitality LIFE INSURANCE
Vitality INVEST
中国平安 PINGAN
AIA HEALTHIER. LONGER. BETTER LIVES
myOwn
GENERALI
John Hancock
Manulife
SUMITOMO LIFE
Equivida
Salud
IGI Life
a.s.r.
Vitality™

New business

+12%

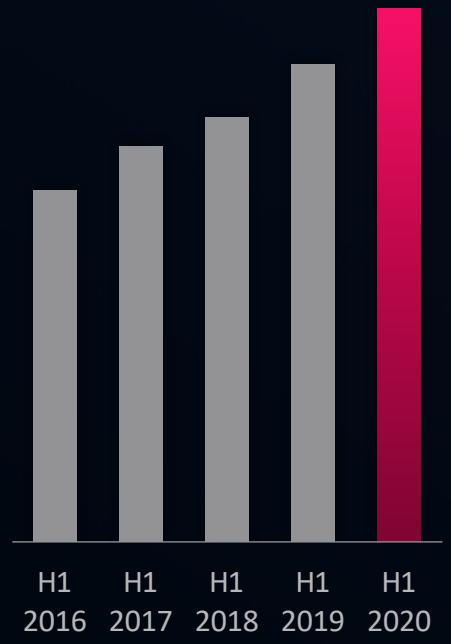
to £76.4m



Lives covered

+12%

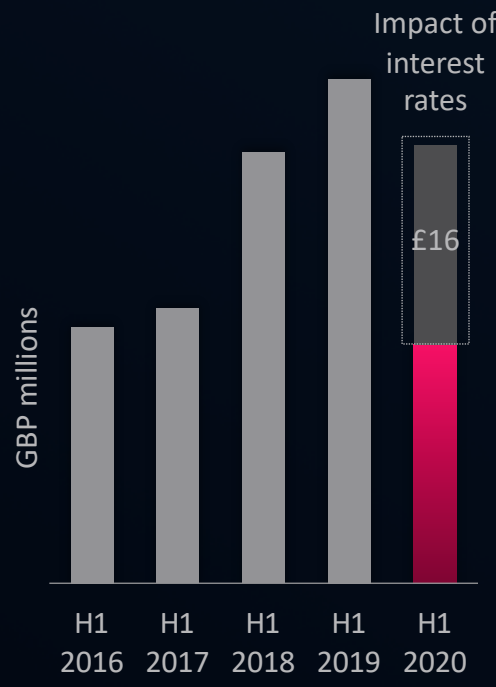
to 1.29m lives



Operating profit

-52%

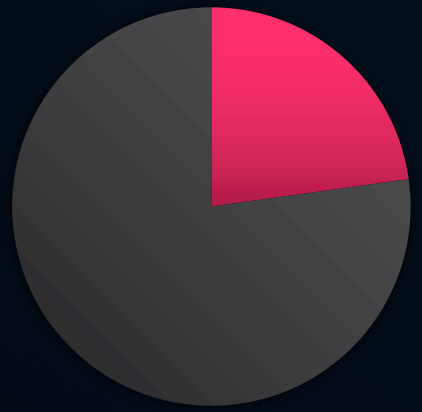
to £19.5m



Contribution to Group EV

23%

of the Group EV

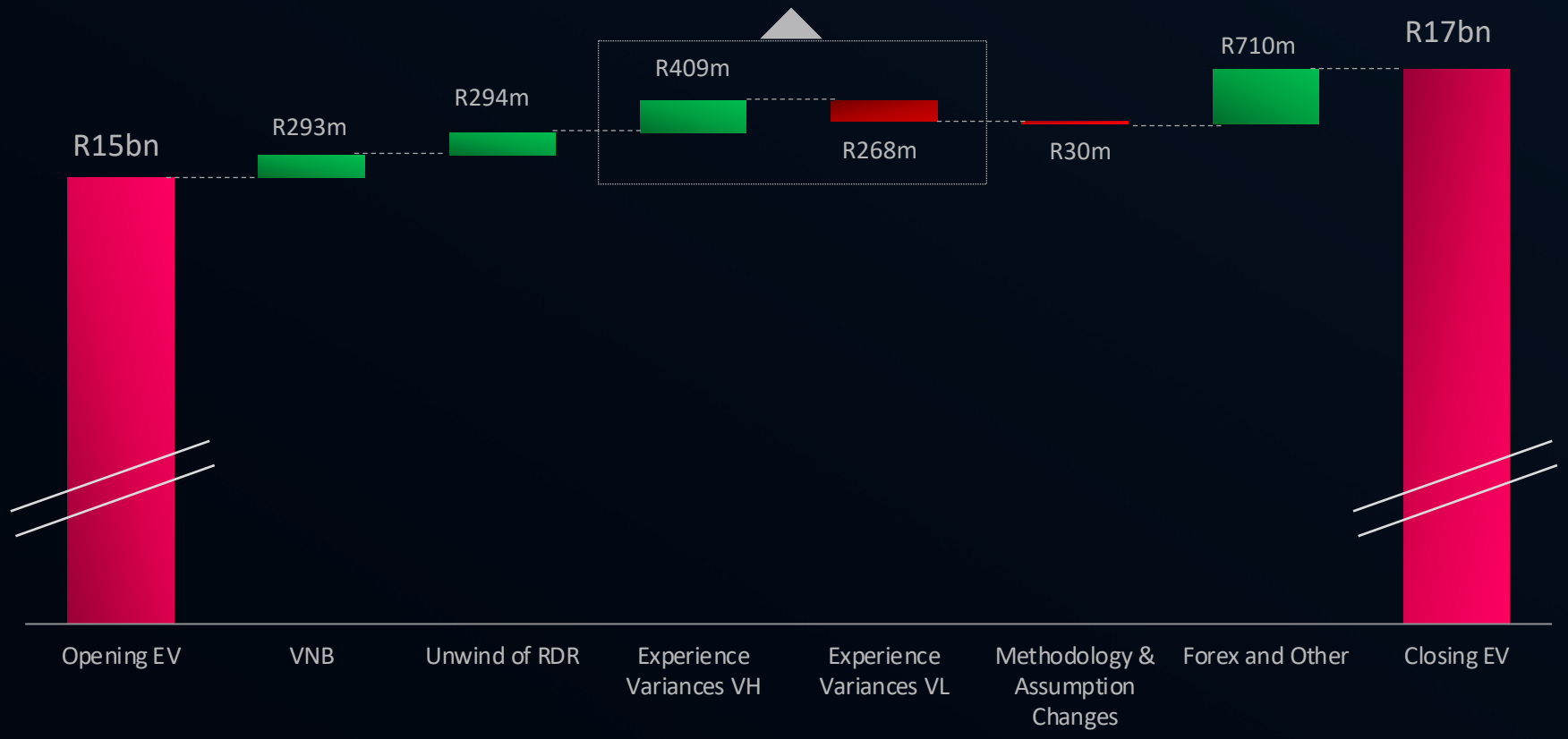


Includes VitalityInvest lives

Net positive experience variances for the UK

Analysis of change in EV for VitalityHealth and VitalityLife

R141m Net positive experience variances for the UK Group



Competitive value proposition

Competitive advantage

Vitality LIFE INSURANCE

Life Optimiser
Upfront premium discount up to 40%

Vitality HEALTH INSURANCE

ABC renewal pricing
Control renewal increase through health outcomes

Vitality INVEST

Healthy Fee Saver
Platinum members can reduce product charges to 0%

Vitality™

Architecture

Stacked rewards, complementary behaviour



Up to
3%
Boosted cashback



Up to
40%
off

Vitality HEALTH INSURANCE

1

Maintain exceptional quality of business

2

Personalised healthcare pathways through digital

3

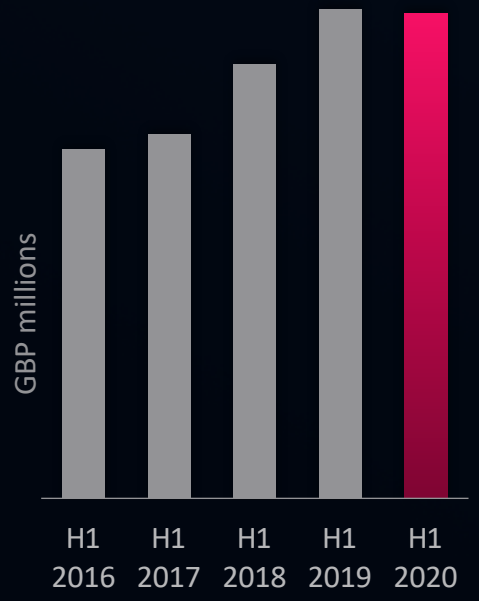
Focus on service quality

Vitality HEALTH INSURANCE

New business

-2%

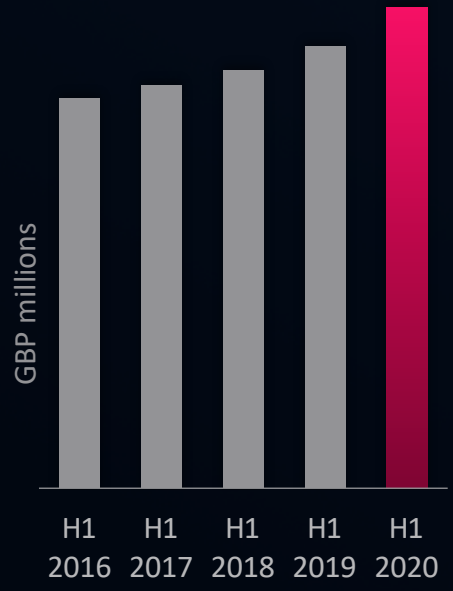
to £33.1m



Earned premiums

+9%

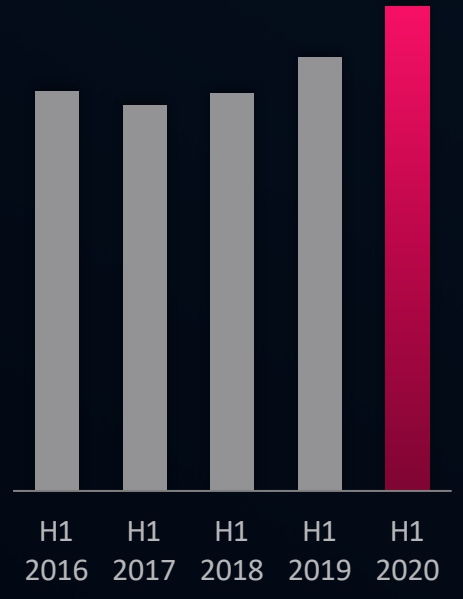
to £246.5m



Lives covered

+12%

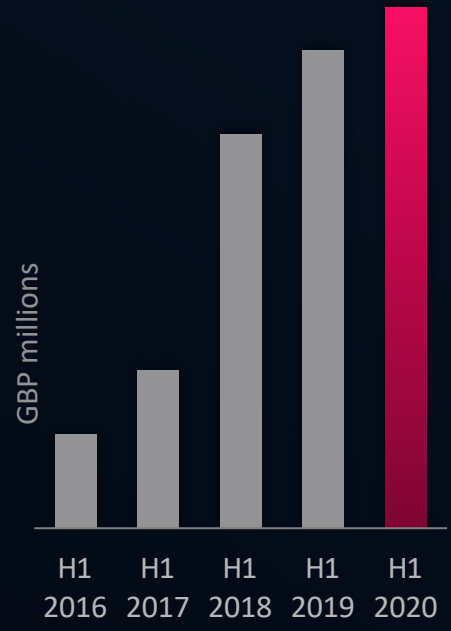
to 674k lives



Operating profit

+9%

to £26.7m



Continued strong performance across key metrics

Combined ratio flat

Combined ratio



J S N J M M J S N J M M J S N

2017 2018 2019

Lapse rates stable

Lapse rates



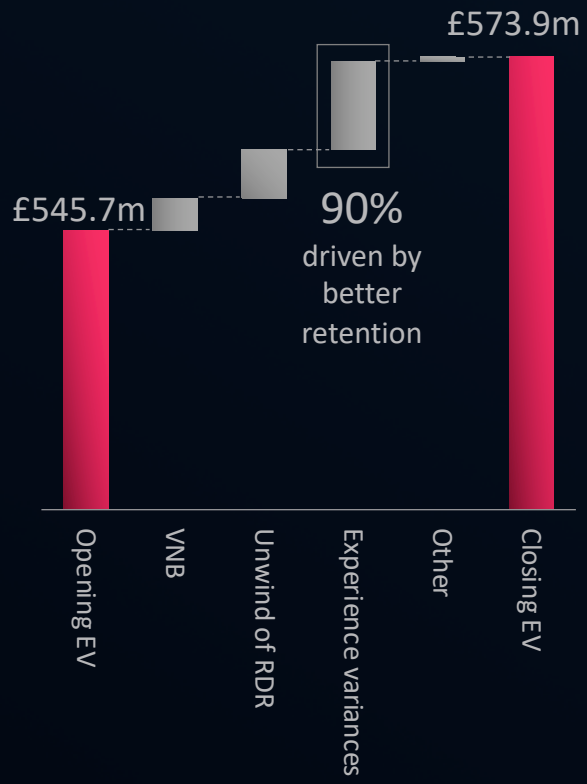
J F M A M J J A S O N D J F M A M J J A S O N D

2018 2019

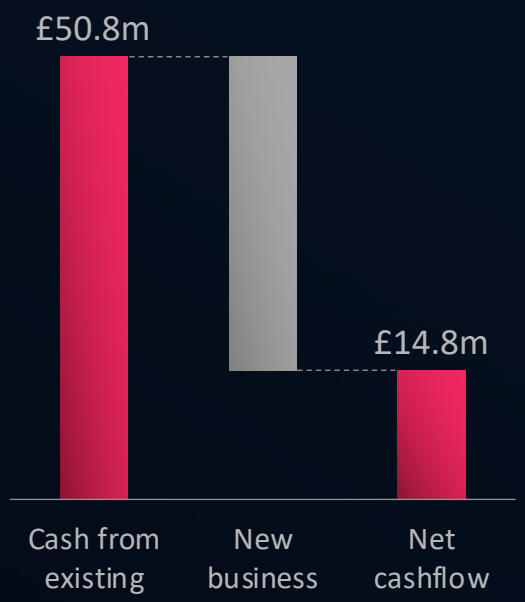
Positive experience driven by retention efforts

+5%

EV



Strong cash flow generation



VitalityHealth being recognised for its servicing excellence

TOP 50 companies for customer service

Ongoing focus on customer service resulted VH in being awarded

first place

in the Top 50 Companies for Customer Service Awards, up from

47th in 2015

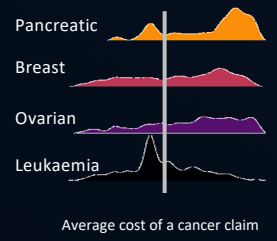
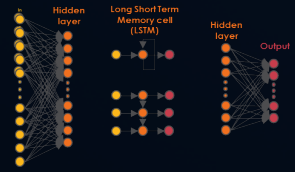
Over 300 leading companies evaluated



Data science is at the core of VitalityHealth

Key areas

- Marketing and online quote personalisations
- D2C call centre operations
- Benefit personalisation models
- Cross-sell models
- Proactive retention activity
- Profitability and pricing models

	Health pricing example	D2C lead call prioritisations
PROBLEM	Claim cost distributions vary significantly by condition, procedures, timings and location  Average cost of a cancer claim	Contacting the right leads first in order to maximise conversion rates from web quotes to sales
SOLUTION	Built a series of Recurrent Neural Networks to understand and predict how claims progress 	Developed a machine learning model that scores every call by predicting how likely each call is to convert 
IMPACT	Provides valuable insight in reserving and pricing 8.6% in improved Risk Profit	Conversion rates for number of call attempts increased over time  72% Improvement in this segment of the Direct channel

Vitality LIFE INSURANCE

1

Stabilise the impact of external factors on the business

2

Quality new business and retention strategies to eliminate experience variances

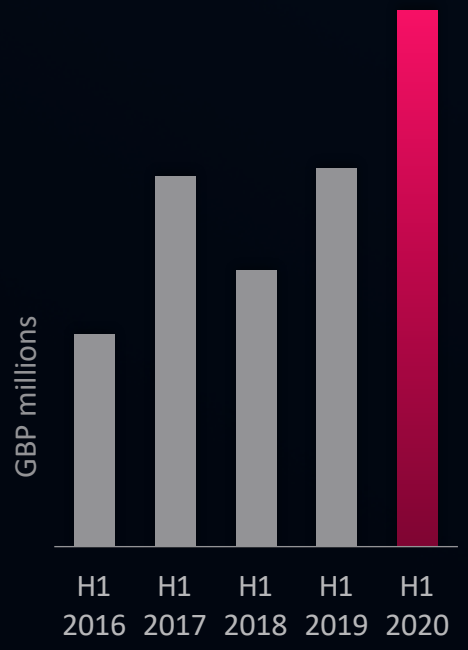
3

Right-size the business for the current environment

New business

+6%

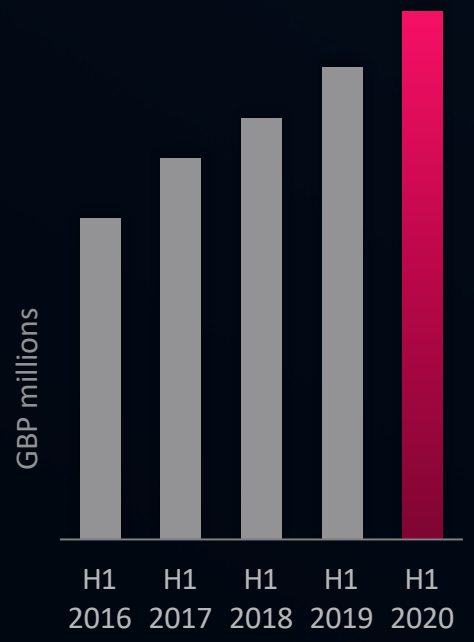
to £34.8m



Earned premiums

+12%

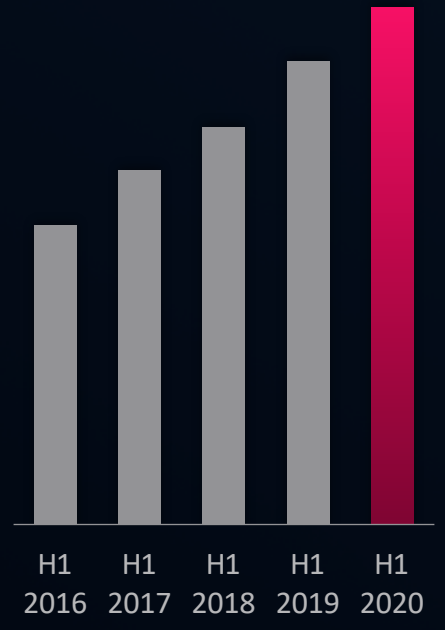
to £141.4m



Lives covered

+12%

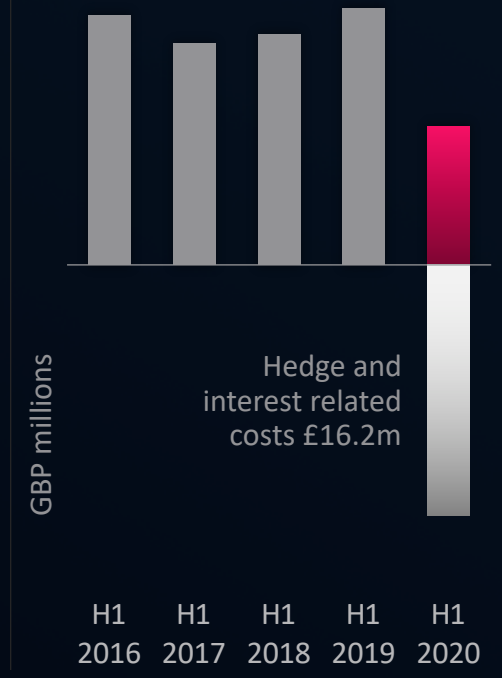
to 605k lives



Operating profit

-144%

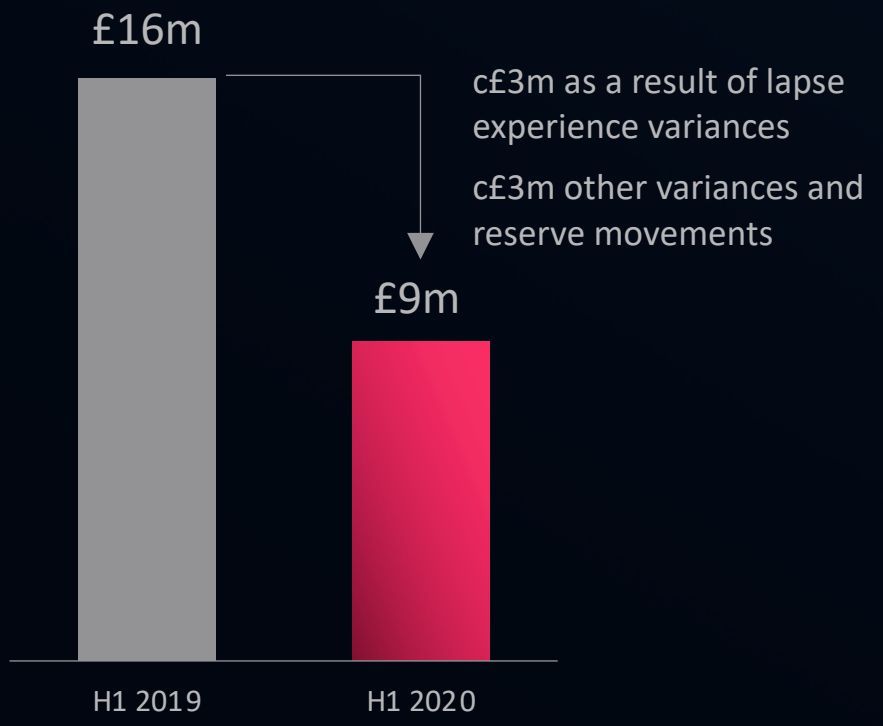
to -£7.2m



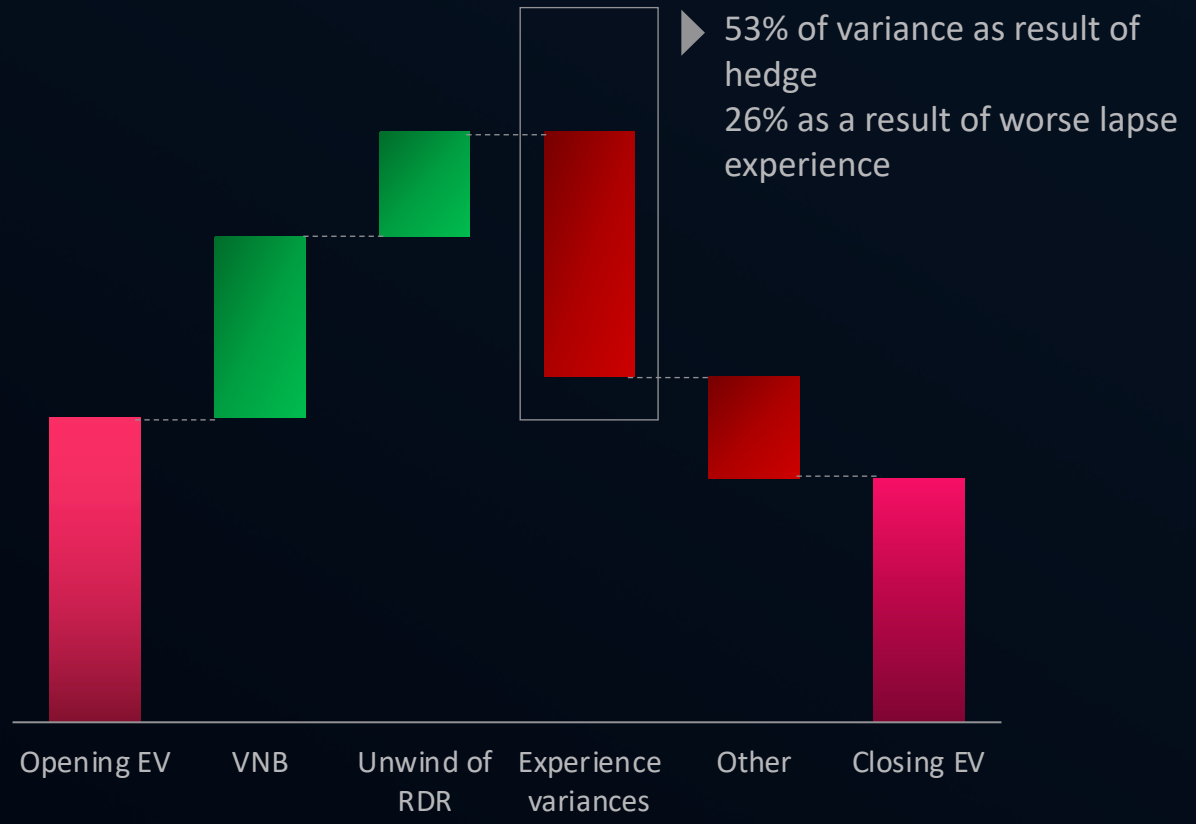
*Includes Transfer Price Margin

Unfavourable experience variances, driven mainly by lapses

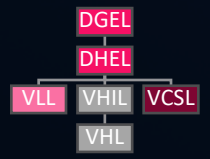
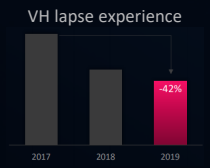
Operating profit before the cost of hedge

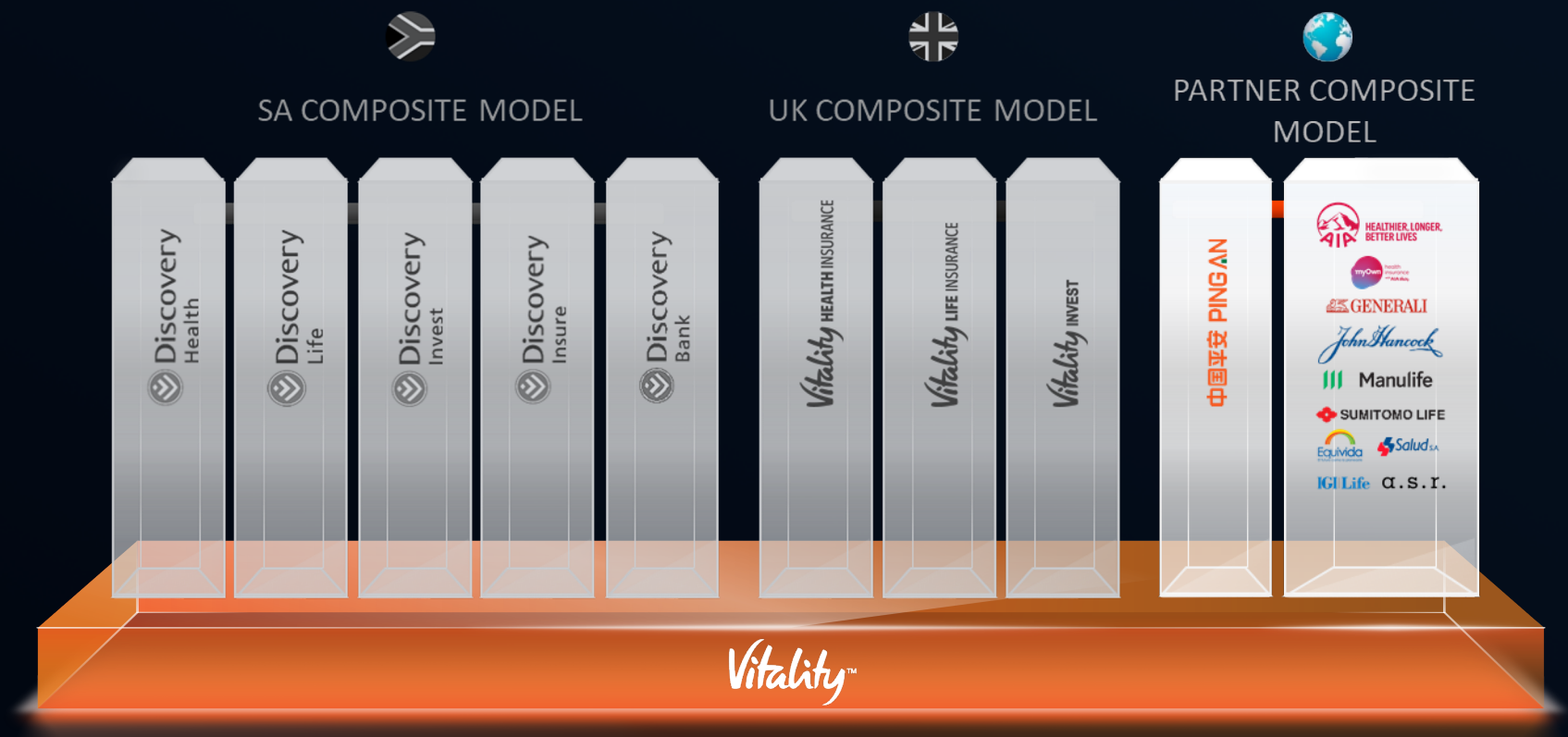


Embedded Value



Moving at pace to right-size the business for the current environment

Area		Key action			Targeted impact
CAPITAL AND LIQUIDITY	1	Part VII transfer deferral	April 2020	May 2023	> £100m capital benefit
	2	Changed legal entity structure			
EXPENSES	3	Group functions spanning VH and VL	VH Operations Retentions & VL Operations Retentions	Group Operations Retentions	£7m run rate reduction in FY2020/21
	4	Reorganising franchise distribution channel	 24 franchises	 12 franchises	£10m run rate reduction in FY2021/22
QUALITY OF NEW BUSINESS	5	Change commission clawback terms	2 years	4 years	Eliminate negative lapse experience variances in FY2020/21 and beyond
	6	Leverage VH expertise		Vitality LIFE INSURANCE	Achieve right mix of quality new business in FY2020/21 and beyond


SA COMPOSITE MODEL
UK COMPOSITE MODEL
PARTNER COMPOSITE MODEL
Discovery Health
Discovery Life
Discovery Invest
Discovery Insure
Discovery Bank
Vitality HEALTH INSURANCE
Vitality LIFE INSURANCE
Vitality INVEST
中国平安 PINGAN
AIA HEALTHIER, LONGER, BETTER LIVES
GENERALI
John Hancock
Manulife
SUMITOMO LIFE
Equivida
Salud
IGI Life
a.s.r.
Vitality™

中国平安
PING AN

1

Delivering the ambition of being the leading health insurer in China

2

Focus on quality of business

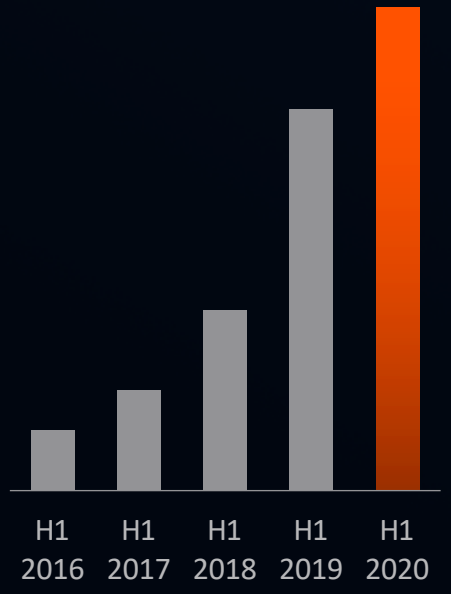
3

Continued investment for growth and scale

New business[1]

+28%

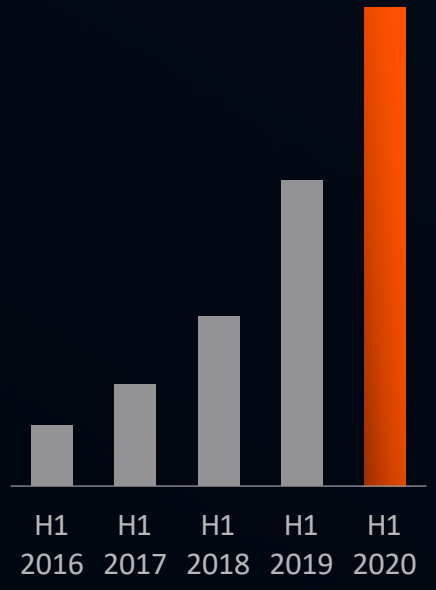
to R5.5bn



Written premium

+59%

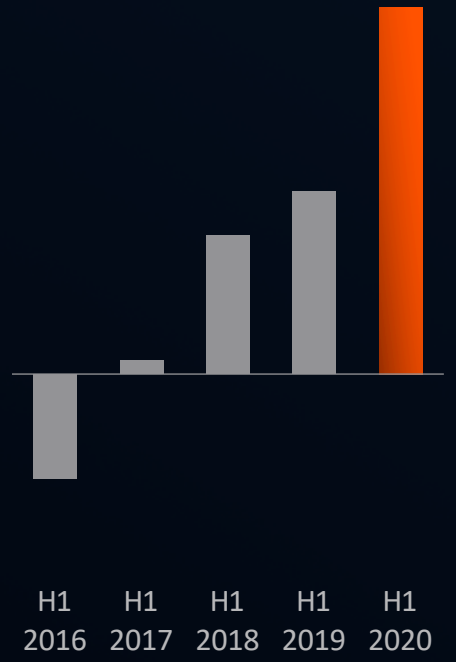
to R11.1bn



PAH's operating results pre-tax

+106%

to R806m
(DSY's share is R202m)



Discovery's operating result after tax

+467%

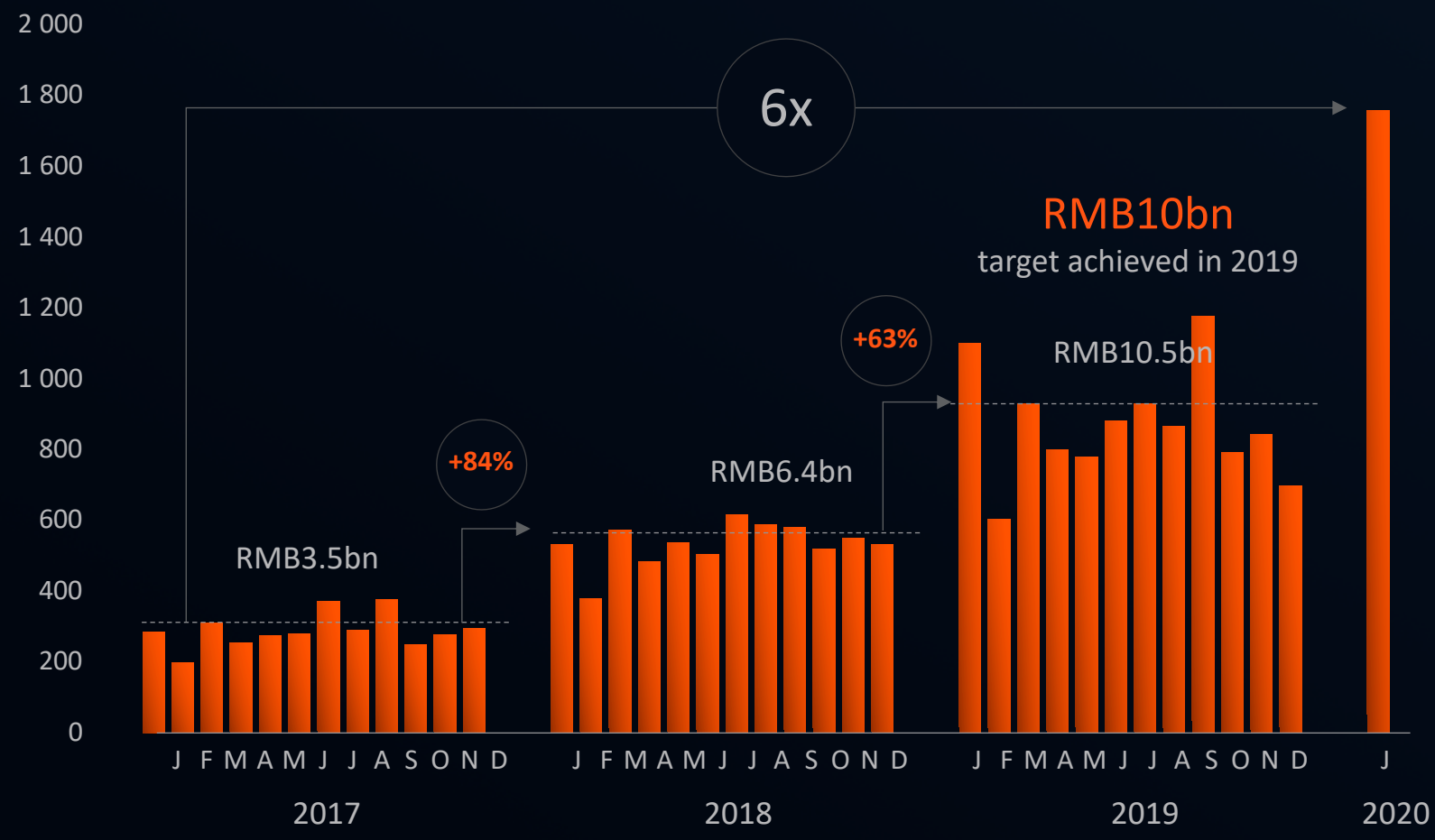
to R68m



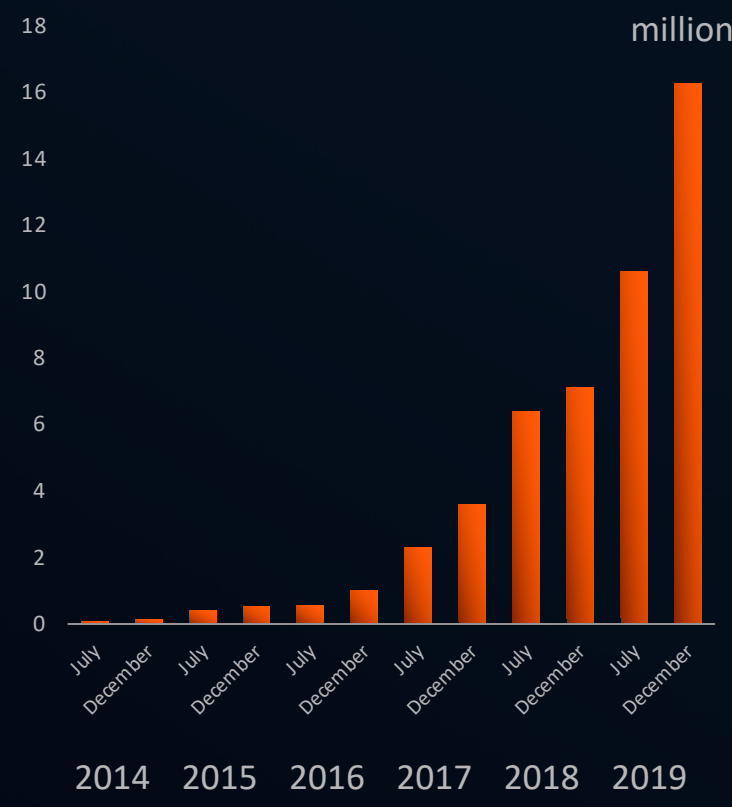
1 100%

PAH exceeded its written premium target of RMB10bn for 2019 calendar year

Total premium (RMB m) generated per month



Insured lives over time

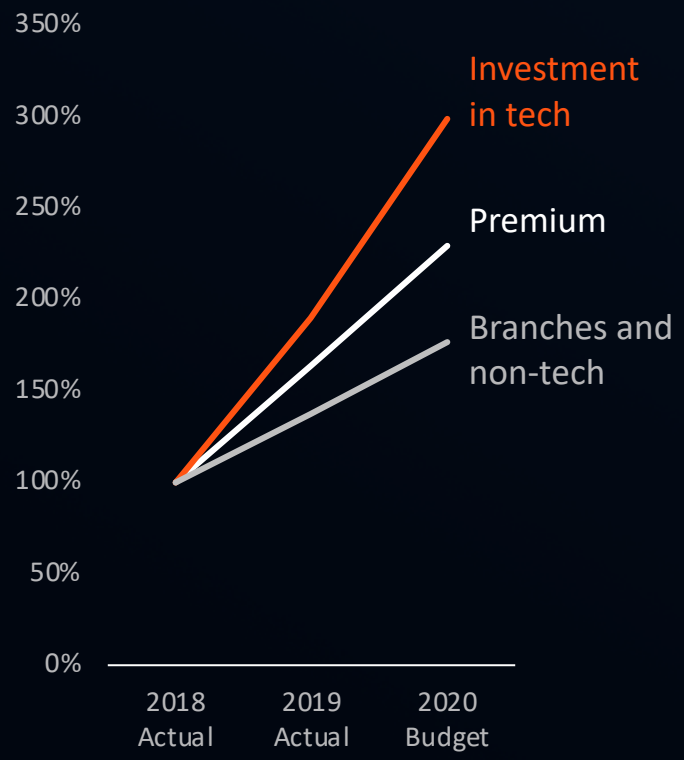


Unaudited January 2020 sales number

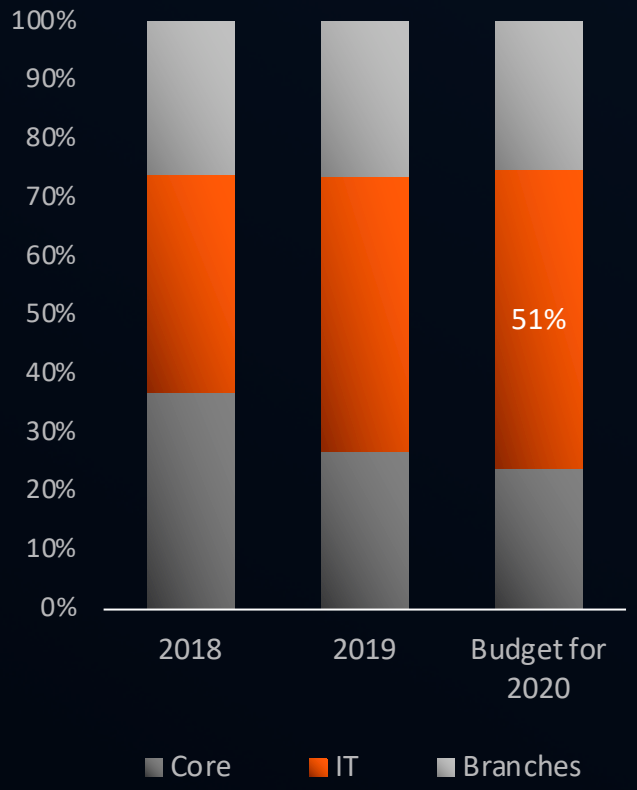
PAH continues to invest considerably into future capability

Significant growth and investment in technology skills

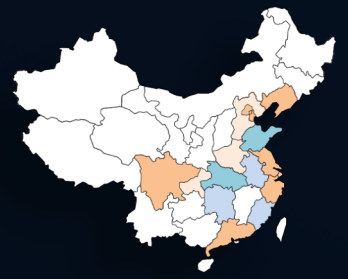
Revenue and fixed expense growth



Substantial investment in technology to support growth



Continue to expand branches and strengthen the team



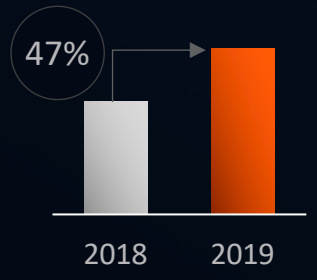
Potential population

2019：638m

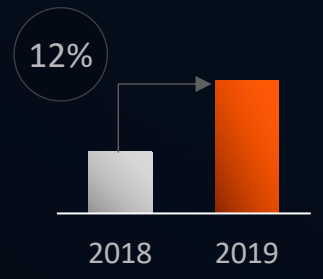
2020：c800m

2021：c1bn

2018 YE branches	10 branches
2019 new branches	Shijiazhuang, Chongqing, Henan
2020-2021 planned branches	Another 5 being explored



Headcount



Increase in per person productivity

Since 2016 PAH has developed a fully-mobile health ecosystem

Medical services
Virtual doctors
Medication delivery

Services

AI robot
Online service robot replacement rate

80%

Consultation

E-Quick claims payment
claims settlement

34s

Claims Settlement



Hook

Hook products attract users
Free micro insurance products
Free Hello Run Club
Rewards in virtual store

Recommend

Smart product recommender
Comprehensive product shelf
Health status based discounts on premiums

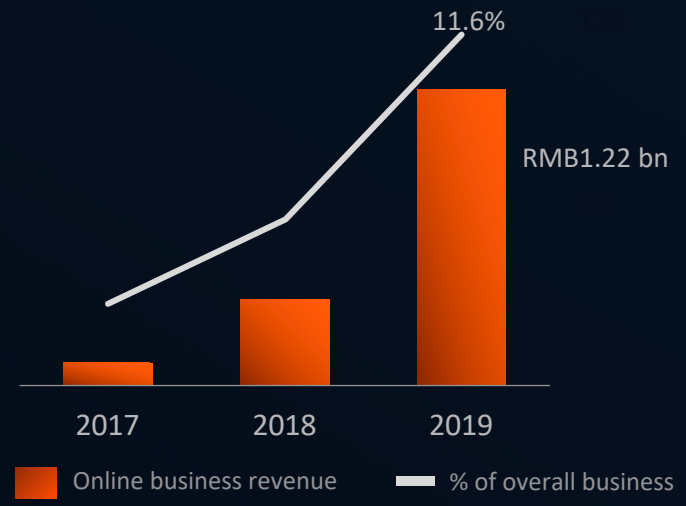
Convert to sale

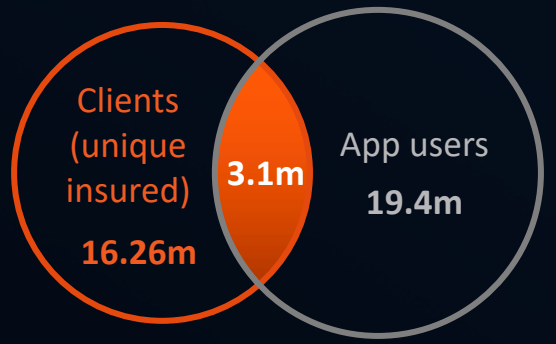
Smart underwriting and mobile payments
3 step underwriting
Mobile eWallet payments
Automatic monthly debits
Electronic policy document

Hospital visits

Hospital recommender and online appointments

The proportion of online business continues to increase





32m lives in ecosystem

A key strategy for the app is HelloRun Club



Download

5.6m Hello Run Club activations



Engage

2x Higher app activity rate amongst Hello Run Club members



Convert

11.6% Of total premium income is channeled through the app

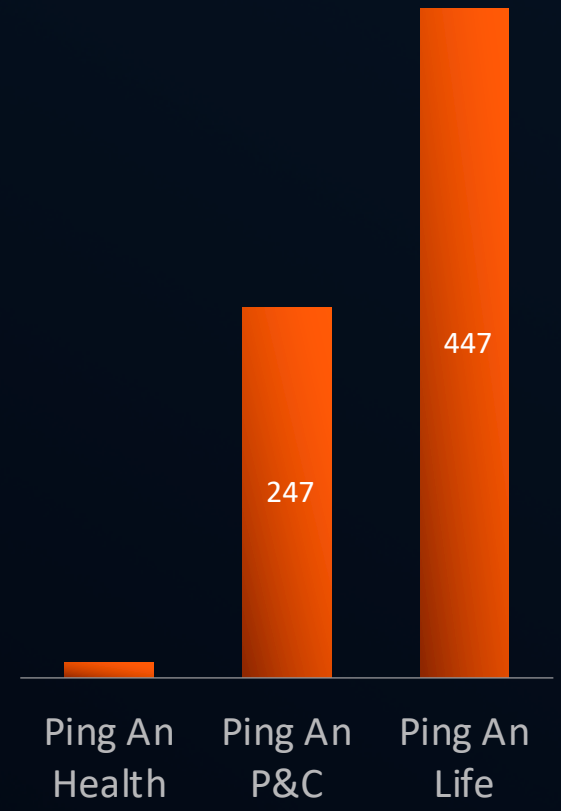
1. Exercise linked free-insurance products
   Load your step data
   'Earn' free insurance benefits
2. Activate your Health Credit Score
   Earn Health Credits with your steps
   Health credits eligible for discounts on premiums
3. Buy discounted insurance
4. Continue to earn health credits to maintain discount

Ambition is to get to significant scale in China, and PAH have set next premium target at RMB100bn



This is possible in the Ping An Group context given PAL and PAP&C are substantial

2018 written premiums (RMB)



Expect the COVID-19 to have limited business impact



The State Council of China has announced that patients' **medical expenses related to COVID-19 will be paid for by the Social Health Insurance system.** This special reimbursement policy will include **all drugs and medical services** listed by the National Health Commission, fulfil a **catch-all function to help patients relieve their burden**, as well as **pay for expenses in advance** to alleviate any pre-payment pressures



Ping An Health is **working closely with appropriate authorities in China** to provide support to clients and other affected citizens



Since **Ping An Health** policies are all designed to provide **cover for healthcare expenses not covered by the state it is currently expected that the financial impact on Ping An Health will be limited**



Ping An Health does not have a branch in Hubei province, but is closely monitoring the situation with respect to customers and staff alike

PAH rapidly provided multiple initiatives to support China in overcoming the COVID-19 epidemic



United to fight the epidemic · Unsung Volunteers at the Frontline

The ordinary can guard the city
Don't forget our unnamed heroes

Slogans on homepage



Insurance products updated with COVID-19 benefits

Provided free Covid-19 specific life insurance policies with limited terms to more than 2m people



Learn about the corona virus and insurance

Informative content

Access to all users 24/7 online doctor consultations and other informative content

Vitality GROUP

1

Focus on scale and relevance globally, and investing in key initiatives to achieve materiality

2

Ensuring leading IP, technology and data insights to deliver the best behaviour change platform and to drive unique customer propositions

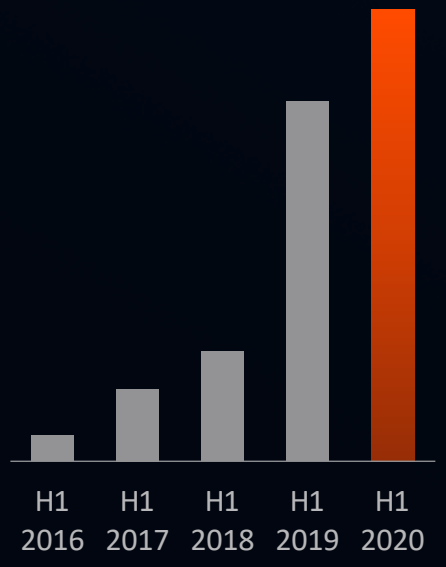
3

Create transformational impact on the business of our partners

Integrated API by insurance partners

+31%*

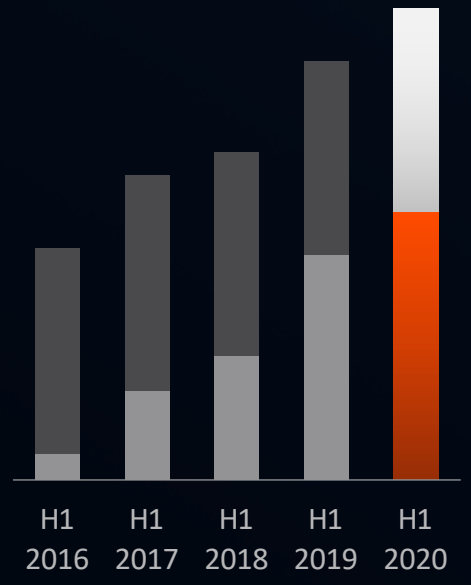
R8.7bn
USD592m



Revenue

+17%

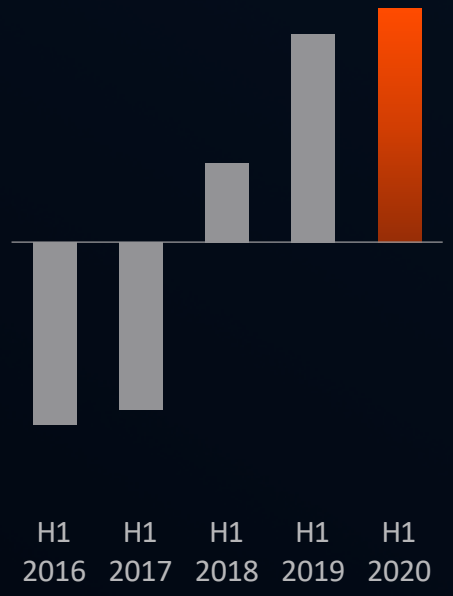
R515m
USD35m



Operating result

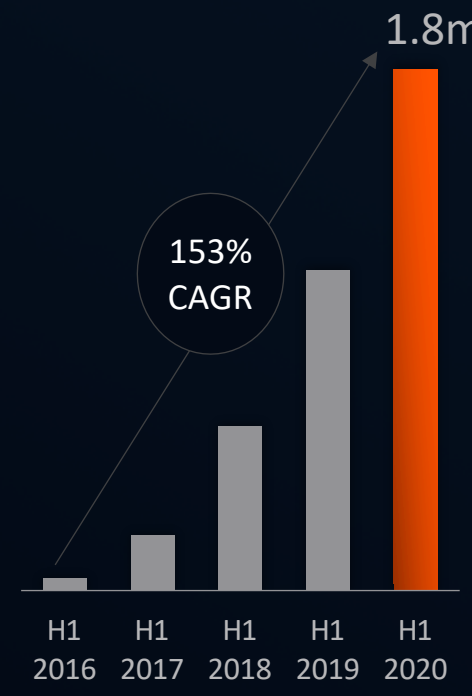
+16%

R110m
USD7.5m



Insurance and franchise partners membership

+63%*



All numbers exclude new VG initiatives, i.e. myOwn and Vitality[1]
*From insurance partners

Vitality USA Insurance Partners

Continual expansion of the Vitality Group



National Champions

Exploit latent potential and scale

Franchise Markets

Rapid market expansion and penetration

Powered By Vitality

Pursue Shared-Value adjacencies and partnerships

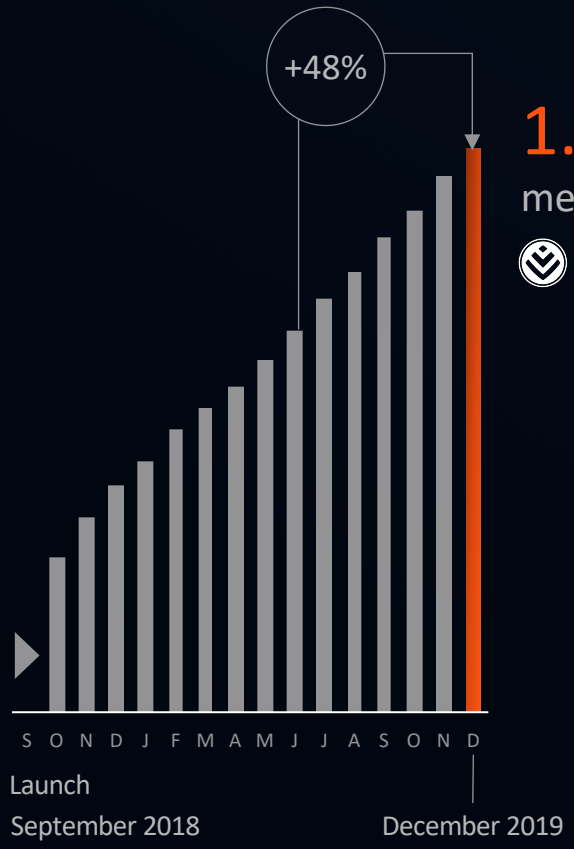
Vitality Health International

New business unit to expand global health insurance initiatives

SUMITOMO LIFE Vitality

Membership growth

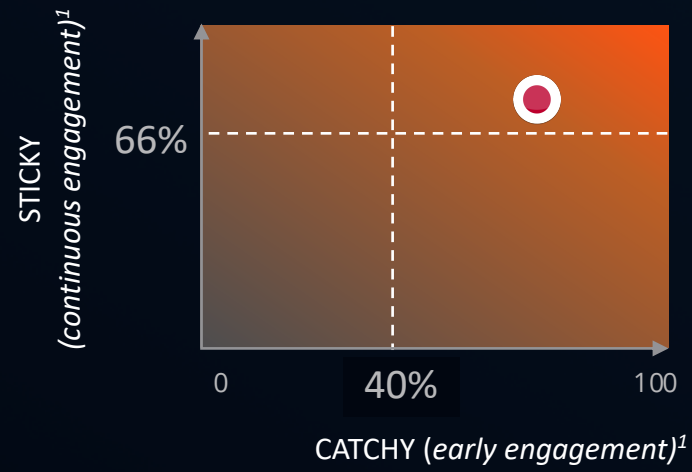
Rapid growth, reaching significant scale in 15 months



1.3X members of Discovery Life

Engagement

High engagement for both new and existing clients



80% Active Rewards take-up[2]

70% Completion of Vitality Health Review[2]

Impact

Clear behavioural change and health impact in a short period of time

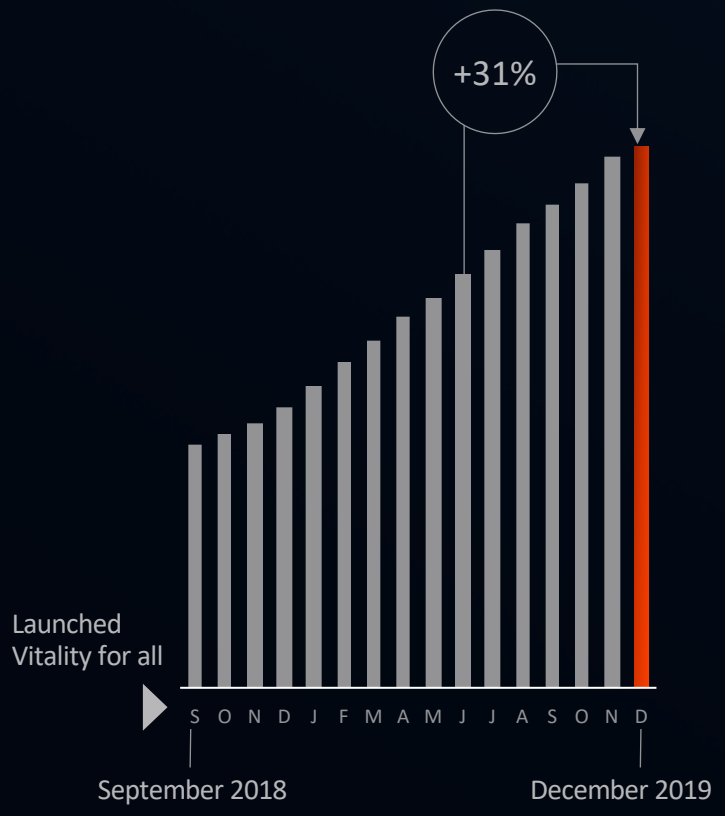
+17% Increase in average steps per day after Vitality enrollment[3]

1 in 2 At risk members, decreased blood pressure by 10mmHg or more[4]

1. As at December 2019
2. As at September 2019
3. Average in month 1 after enrollment vs. average from months 2-7
4. VHC at enrollment vs. subsequent VHC until Nov 2019

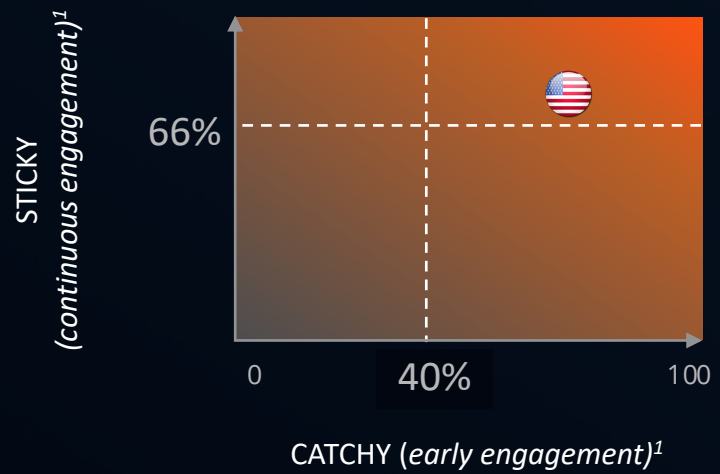
Membership growth

Recent 6 month growth maintains a steady pace



Engagement

Significantly above median engagement for both new and existing clients

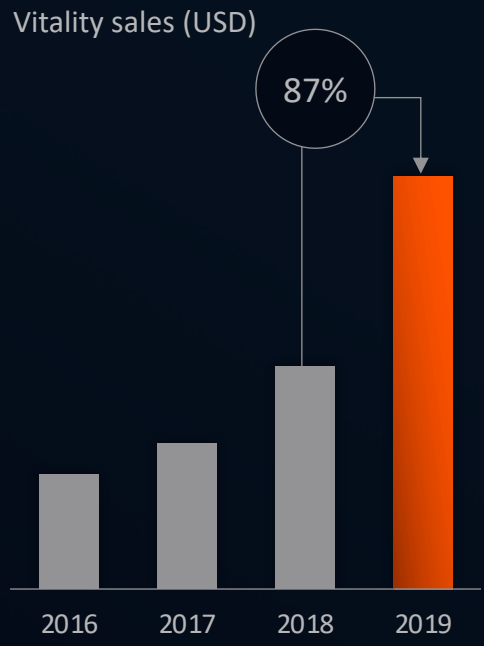


+60%

Above the average number of Vitality activities per month[2]

Impact

Extraordinary sales growth rate for recent year



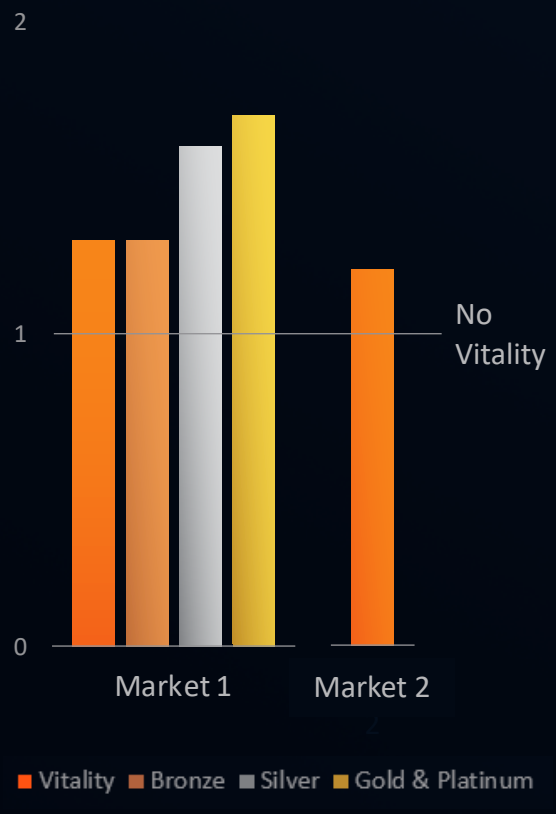
Dec 2019, Q4 2019 and year of 2019:

Highest sales month, quarter and year

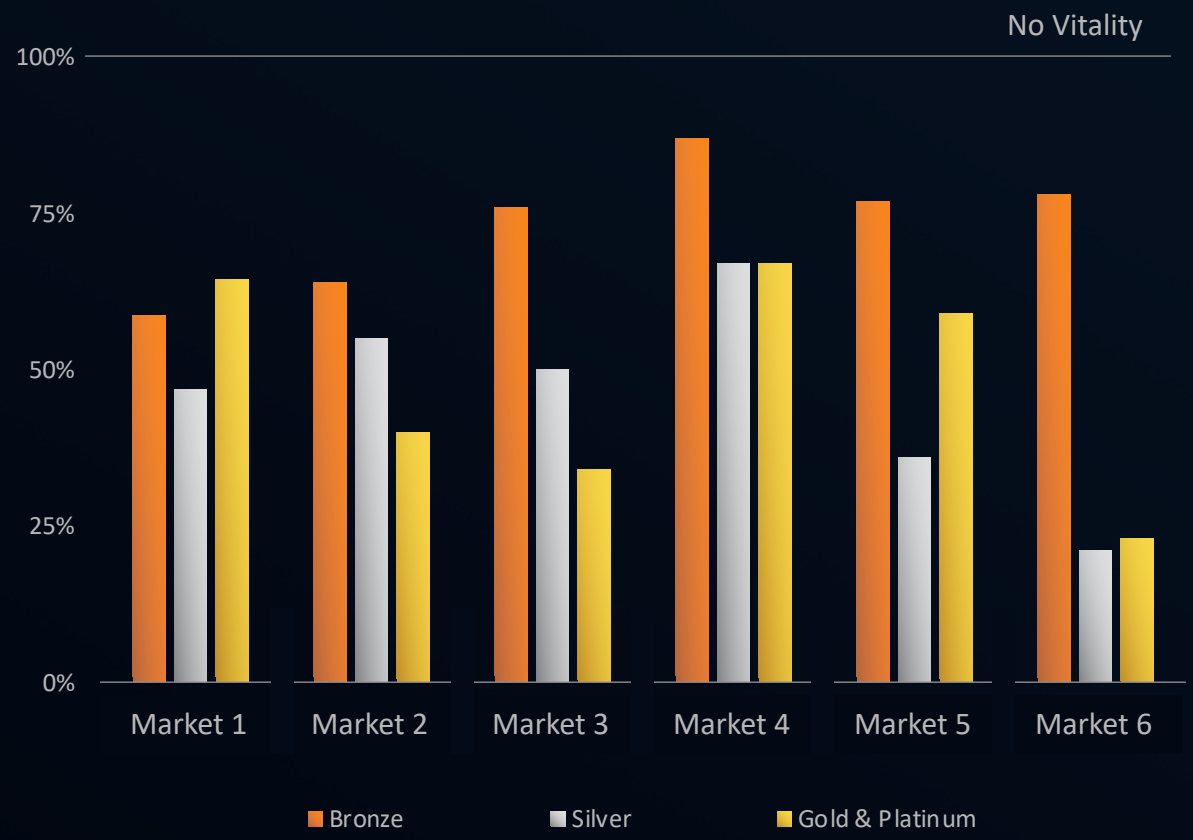
1. As at December 2019, Vitality Plus
2. Average number of Vitality point earning activities for 6 months ending Dec 2019

Positive actuarial dynamics across all AIA markets

Repurchase rates



Lapses



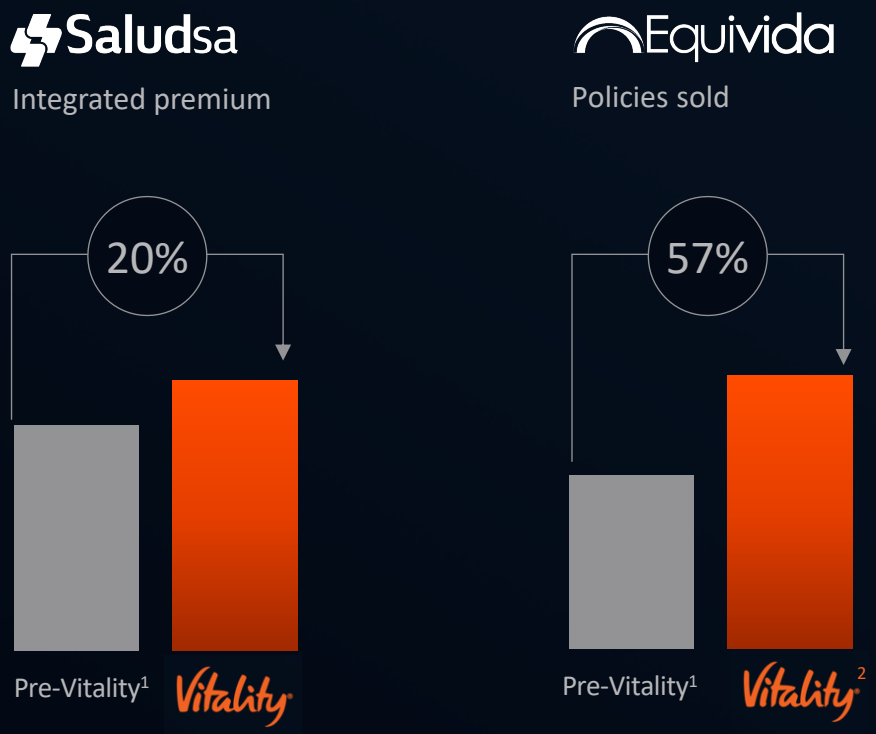
Rapid market expansion and penetration with Franchise Markets

Successful scaling of the model

Cumulative total



Strong sales growth from Ecuador in first 6 months



1 July-Dec 2018 vs. July-Dec 2019
2 Uplift driven by Vitality and increase in sales force

Expansion of the business model with Apple Watch Engage adjacencies

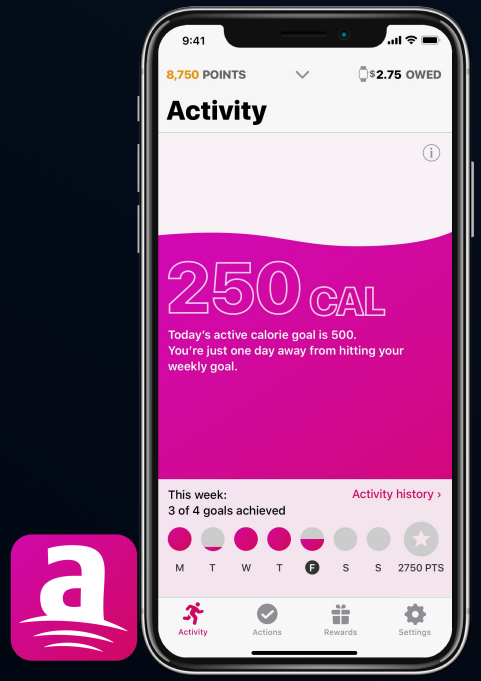


Strengthening of Apple Watch partnership

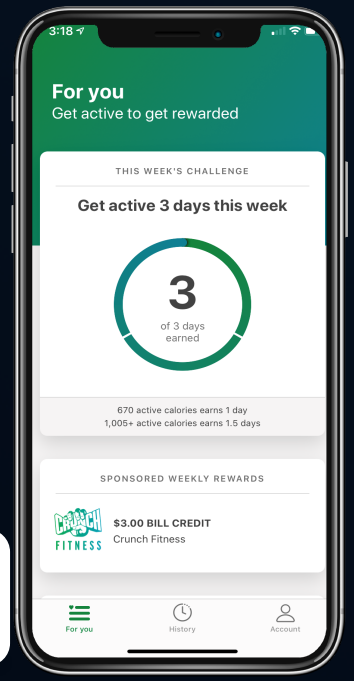
Expansion into new frontiers with select Apple partners

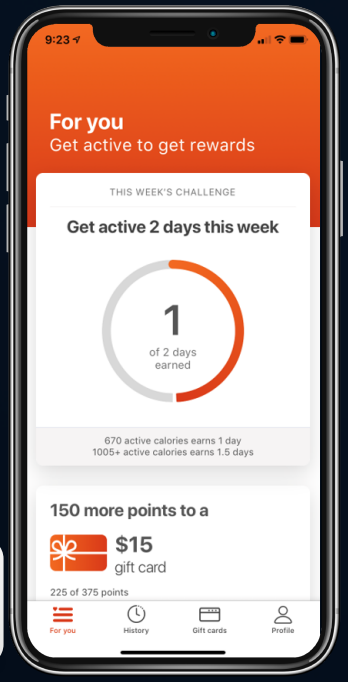
Leveraging Vitality's Active Rewards with Apple Watch programme structure

Healthcare



Gym and fitness groups

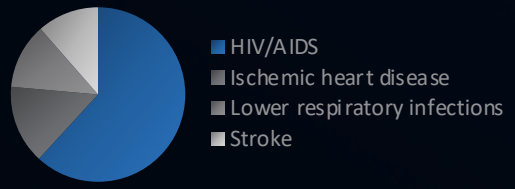
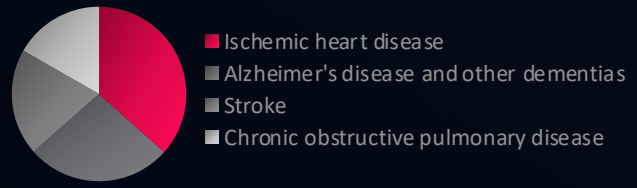
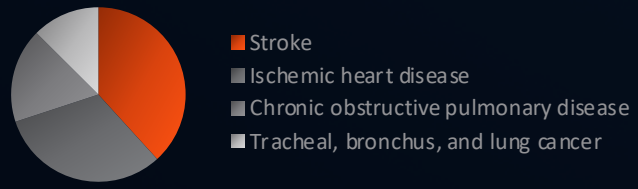




Impact

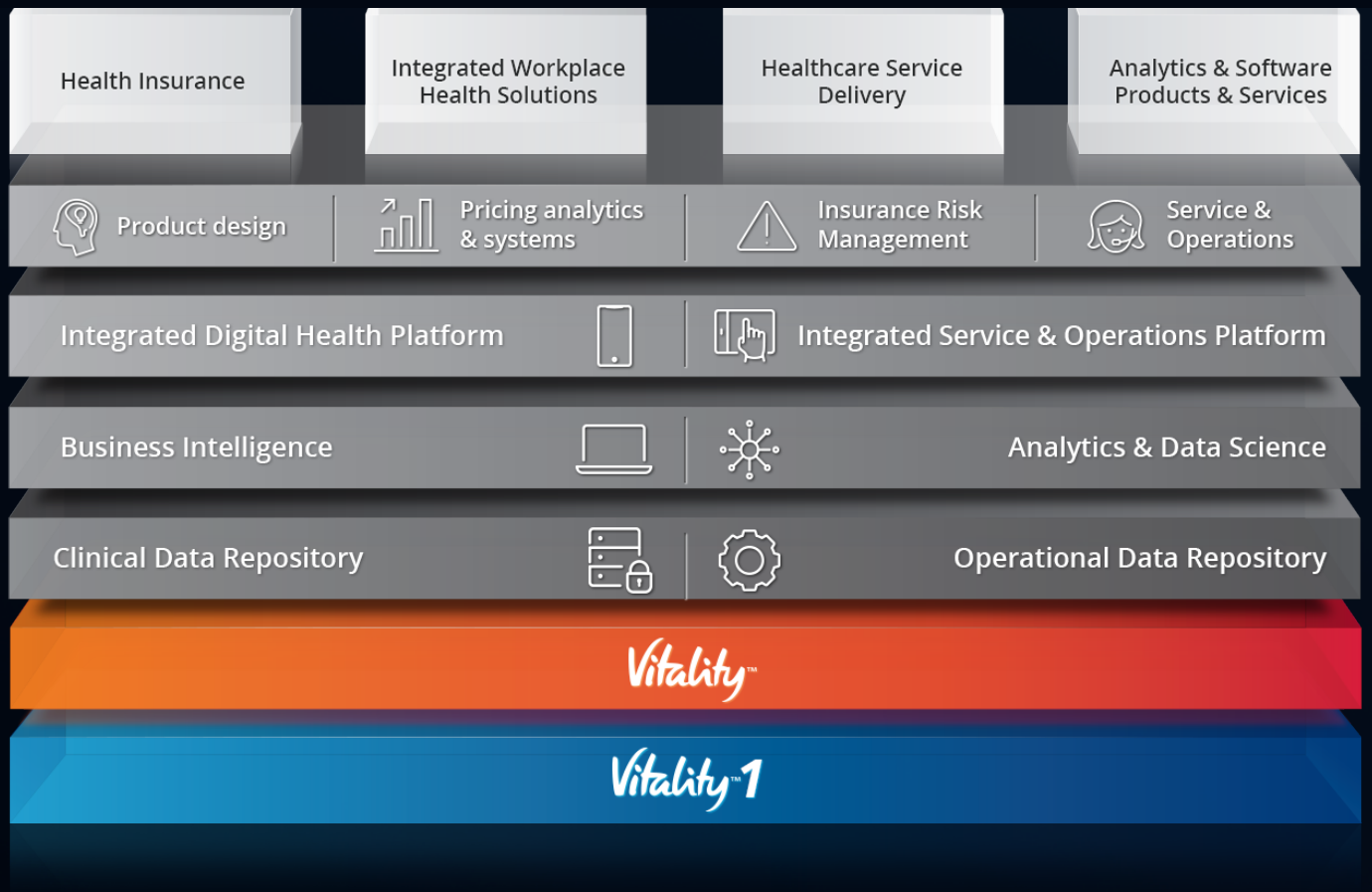
- Higher engagement
- Increased physical activity
- Increased customer satisfaction
- Higher retention

Discovery has unique health insurance capabilities and assets

	Discovery Health	Vitality Health Insurance	PING AN
Market share	1st	1st new business	1st
Premium rating environment	Open enrollment community-rated	Risk-rated environment	Risk-rated environment
Provider dynamics and networks	Very advanced smart networks	Advanced, open referral network	Developing hospital networks
Hospital beds per 1,000 lives[1]	2.8	2.8	4.2
Physicians per 1,000 lives[1]	0.9	2.8	1.8
National health system	Full indemnity private healthcare system, alongside public system	Integrated healthcare funding together with national healthcare system	Social healthcare system for all, with private offering choice, and indemnity against high co-pays
Disease burden[2]			

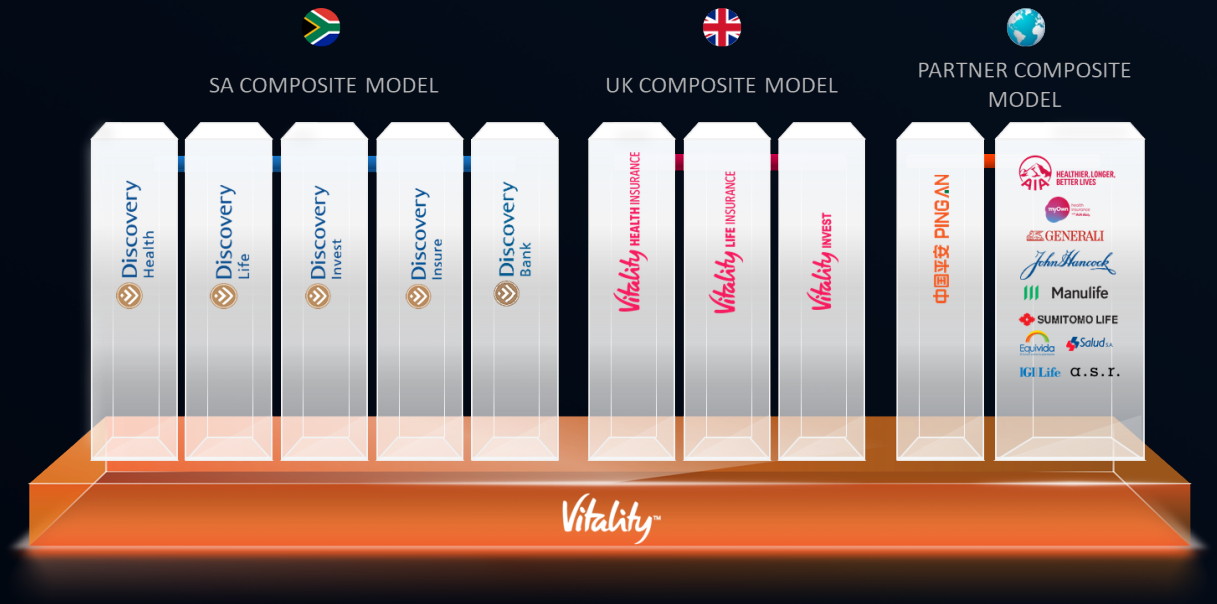
1. World bank data
2. Top 4 diseases causing highest % of deaths

Vitality Health International tools and assets manifest as a fully integrated health insurance stack



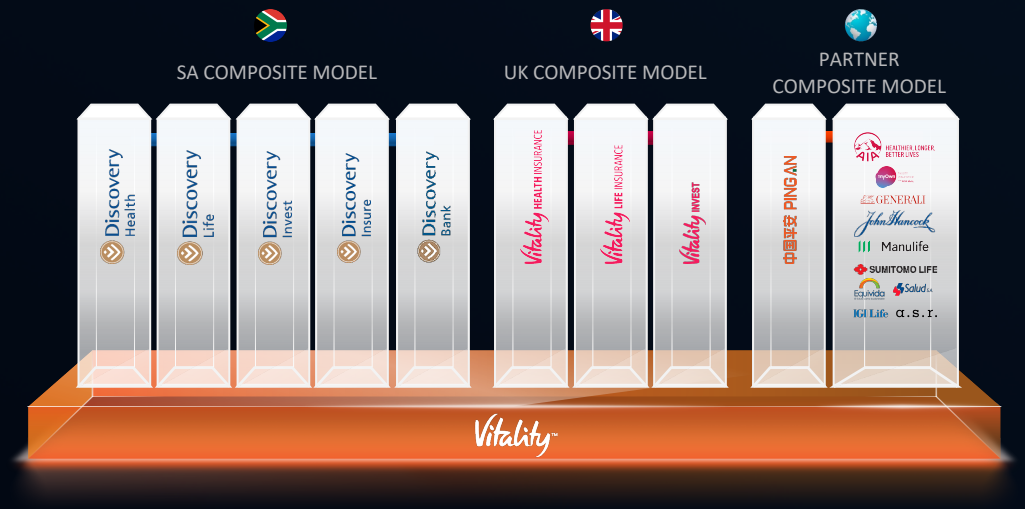
4

Prospects for growth



Discovery is well positioned and capitalised to achieve its 2023 Ambition

2023 Ambition

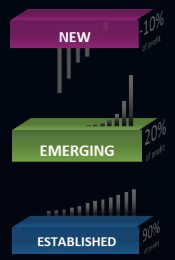


1. Perfect **composite model**, #1 in every industry, and laboratory for shared value in financial services. A successful entry into banking
2. The best insurer in the UK, making use of a **composite Shared-Value Model**
3. Ping An Health delivers on its plan to become the **leading health insurer in China** with over 50m clients
4. Vitality is the world's largest and most sophisticated **behavioural platform** linked to financial services, with disciplined execution

Short-term priorities



Execute on VitalityLife's stated plans to manage in the low interest rate environment, stabilise experience variances and return to robust profit in FY 2021



Achieve significant traction in New initiatives, most notably Discovery Bank, and ensure short term new business thresholds are achieved for each initiative

Ensure Established businesses maintain their insurgency

Capitalise on Emerging businesses' unique attributes and positioning to achieve their scale and materiality



Discovery

UNAUDITED INTERIM RESULTS

and cash dividend declaration
for the six months ended
31 December 2019