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Fedhealth Medical Scheme

South Africa Medical Scheme Analysis **May 2017**

Rating class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	AA-(ZA)	Negative	May 2018

Financial data:

(USD'm comparative)

	31/12/15	31/12/16
R/USD (avg.)	12.77	14.71
R/USD (close)	15.54	13.74
Total assets	90.2	96.2
Members' surplus	70.8	72.4
Cash & equiv.	39.9	37.5
Gross contributions	228.2	211.7
Net healthcare result	(5.3)	(10.9)
Net result	0.8	(3.9)
Op. cash flow	(1.9)	(5.9)
Market cap.		n.a.
Market share*		3.1%

*Share of open medical schemes in terms of principal membership at 3Q 2016.

Related methodologies/research:

Criteria for Rating South African Medical Schemes, updated July 2016

Fedhealth Medical Scheme rating reports 2001-2016

Ratings history:

Initial rating (October 2001)
Claims paying ability: BB(ZA)
Rating outlook: Stable

Last rating (May 2016)
Claims paying ability: AA-(ZA)
Rating outlook: Stable

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Summary rating rationale

- GCR has affirmed the rating at AA-(ZA) with the outlook placed on Negative, reflecting GCR's expectation for potential continued earnings pressure over the rating horizon, and consequent continued moderation in solvency strength.
- Fedhealth Medical Scheme's ("Fedhealth") earnings are viewed to be pressured, with atypically high claims in 1H FY16 (experienced across the industry) in particular limiting the scheme's earnings headroom. With respect to the latter, Fedhealth has sought to utilise excess reserves over the past four years (FY13 to FY16) as a means of providing affordability relief to members. The concomitant thin net results were projected to lower solvency to a level viewed by management to sustain a sufficiently high risk buffer. However, in FY16, an elevated claims experience drove the claims ratio to a review period high of 93.5% (prior three year average: 91%), contributing to an overall net deficit of R57m (budget: R2.2m net surplus). In turn, this resulted in solvency contracting to 31.5%, below management's target of 33.6%. In response, management effected a higher average annual contribution rate increase (FY17: 13.4%; FY16: 10.8%), and implemented corrective measures targeting claims containment. These are aimed at alleviating claims ratio pressure in FY17, and consequently maintaining solvency within management's target range. However, GCR takes note of the potential for continued soft to negative net results to result in a sustained moderation in solvency strength, negatively impacting on the scheme's credit profile.
- Fedhealth's solvency strength moderated in FY16, on the back of the weakening in earnings. In this regard, accumulated funds reduced by 5% to end the year at R982m, with the statutory solvency margin lowering to 32% (FY15: 36%), below the projected 34%. Management are targeting a minimum statutory solvency range of 28% to 32%, with the improvement in earnings capacity budgeted to preserve solvency at the lower end of this band. However, GCR views a lowering in solvency to reflect a likely reduction in the scheme's overall credit strength.
- Liquidity is viewed to be adequate, with the highly tradable nature of invested assets partly offsetting reduced cash coverage metrics. In terms of the latter, negative earnings, coupled with cash flow strain in FY16 saw a 17% reduction of year end cash balances, with the net cash coverage ratio lowering to 1.5 months (FY15: 2 months). A stable investment strategy is expected to uphold adequate levels of liquidity over the medium term, subject to stabilisation in the earnings profile.
- Fedhealth exhibits a fairly consistent membership base, holding a stable market share of just over 3% across the review period (based on principal membership). The member pool is viewed to be well diversified, with individuals representing the majority of members, and concentration exposure within the corporate segment viewed to be limited.
- The member risk pool exhibits an aged profile, impacting negatively on the scheme's earnings. In this respect, Fedhealth's average member beneficiary age of 39 years registered above that of the open scheme industry average (34 years). This was further exacerbated by a high proportion of pensioners, with the pensioner ratio equating to 14.6% (3Q F16 industry average: 8.2%). Note is taken of the stabilising age profile over the past two years, which does indicate a degree of membership pool renewal. Nonetheless, the scheme's age profile is not expected to improve materially over the rating horizon.

Factors that could trigger a rating action may include

Negative change: The negative outlook reflect the potential for continued soft to negative net results to result in a sustained moderation in solvency strength, negatively impacting on the scheme's credit profile.

Positive change: Should management's initiatives succeed in significantly lowering the claims ratio, with an outperformance of the budgeted net result leading to a statutory solvency margin in excess of budget (registering within the upper end of the target range), then the rating may revert to a "Stable" outlook.

Corporate profile

Fedhealth is a well-established player in the South African open medical schemes industry, covering 146,327 beneficiaries at year-end FY16. The scheme continues to benefit from a long standing relationship with its administrator, Medscheme, which is considered one of the most prominent administrators in the South African Medical Schemes arena.

Options

Table 1: Total contribution by option (R)	Principal		Beneficiaries	
	FY16	FY17	FY16	FY17
Ultimax	8,193	9,215	6,960	7,829
Ultima 200	2,630	3,251	2,229	2,756
Maxima plus	5,992	6,740	5,098	5,733
Maxima exec.	3,639	4,302	3,100	3,666
Maxima standard	2,693	3,032	2,294	2,583
Maxima standard elect	2,053	2,316	1,750	1,974
Maxima basis	2,223	2,501	1,893	2,129
Maxima core	1,695	1,907	1,436	1,616
Maxima saver	1,848	2,079	1,505	1,693
Maxima entry saver	1,459	1,640	1,050	1,181
Maxima entry zone	1,179	1,326	881	991
Blue door plus	690 – 2,114	540 – 2,378	572 – 1,832	540 – 2,061
Dynamic saver	n.a.	401 – 1,571	n.a.	361 – 1,414
Dynamic core	n.a.	333 – 1,328	n.a.	299 – 1,194

Note: Contributions above include savings portion.

Structurally, the scheme's product portfolio remains categorised into three major option plans, namely Ultima, Maxima and Blue Door. Benefit design on the scheme's existing options was relatively unchanged for the 2017 benefit cycle, with two additional options being offered from April 2017. These options fall under the Dynamic range and are income based options slotting in at the lower end of the option spectrum, primarily aimed at employer groups. The following table summarises key benefits of all major options in 2017.

Risk benefits:

- *In-hospital benefit* - Cover for hospitalisation and major medical incidents.
- *The chronic disease benefit* - Provides cover for 65 listed chronic conditions, including the 25 Prescribed Minimum Benefit ("PMB") chronic conditions, with applicable limits attached to each option.

Day-to-day benefits:

- *Out-of-hospital expenses benefit* - The out-of-hospital expenses benefit ("OHEB") allows the member to cover an initial level of out-of-hospital expenses before having to draw down on the *Healthcare Savings Account ("HSA").* This is only available on certain options.
- *Healthcare savings account ("HSA")* - Is included on all options, barring Maxima core, Maxima entry zone and Blue door plus.
- *Safety net benefit* – pays for certain day-to-day benefits once the OHEB and members' savings threshold has been reached, and members' day-to-day medical expense claims have accumulated to the required level.

Table 2: Options	Savings	Safety net	OHEB
Ultimax	✓	✓	✓
Ultima 200	✓	×	×
Maxima plus	✓	✓	✓
Maxima exec	✓	✓	✓
Maxima standard	✓	✓	✓
Maxima standard elect	✓	✓	✓
Maxima basis	✓	×	✓
Maxima core	×	×	×
Maxima saver	✓	×	×
Maxima entry saver	✓	×	×
Maxima entry zone	×	×	×
Blue door plus	×	×	✓

Note: Annual in-hospital cover is unlimited across all Ultima and Maxima options.

Membership base

Strategic objectives

Cognisant of the scheme's aged member profile, rejuvenation of the membership base through targeted member growth strategies remains a key focus for management over the medium to longer term. The scheme's partnership with Sanlam (beginning in 2016), a large established financial services company domiciled in South Africa, is aimed at providing the scheme access to the company's fairly large employee base (estimated at 13,000 at 2016) and distribution channels, offering cross selling opportunities through brokers and tied agents. The structures required to unlock opportunities associated with the partnership continue to be bedded down and, as such, the benefits are only expected to be realised over the medium to longer term.

The partnership also allows Fedhealth members to voluntarily participate on the Sanlam Reality rewards programme. To date, member participation has been low. This has been attributed to limited member awareness around the programme. However, the scheme continues to work with the rewards provider to refine the offering and tailor it to meet the specific needs of the scheme's members in order to increase its competitiveness within the market. The expectation is for the rewards programme to compliment the scheme's growth strategy as an improved value proposition of options may assist in improving member retention levels.

Membership growth

Table 3: Membership scale	FY14	FY15	FY16	YTD17
Principal members	74,514	71,228	73,480	72,461
Beneficiaries	148,345	142,882	146,327	144,450
Principal member growth	1.5	(4.4)	3.2	(1.4)
Market share (%)*	3.3	3.1	3.1	n.a.

*FY16 based on open scheme industry principal members as per the CMS 3Q F16 quarterly report.

Total principal members rebounded to 73,480 in FY16 (FY15: 71,228) on the back of targeted marketing and campaigns and brand repositioning. Continuing the trend observed last year, much of the growth was focused towards the lower tier options (Maxima saver, Maxima entry saver and Maxima zone), which added a combined 6,540 principal members in FY16 (FY15: 4,338 members). The gravitation towards the lower tier options highlights affordability issues facing members, where option pricing plays a more critical role in member selection patterns (which holds for new members joining the scheme as well as for existing members who may buy down from higher priced options).

Table 4: Option mix (%)	Member growth FY16	Principal members		NPI	
		FY15	FY16	FY15	FY16
Ultimax	(15.0)	0.4	0.3	1.3	1.2
Ultima 200	(10.8)	4.8	4.1	5.8	5.3
Maxima plus	(12.0)	2.5	2.1	5.8	5.3
Maxima exec	(8.7)	8.4	7.4	12.4	12.2
Maxima standard	(5.8)	37.0	33.8	42.4	41.6
Maxima standard net	(36.3)	1.4	0.8	1.4	0.8
Maxima basis	(7.0)	11.0	9.9	10.9	9.1
Maxima core	(7.6)	13.2	11.8	10.7	10.4
Maxima saver	82.5	3.2	5.6	2.0	3.6
Maxima entry saver	80.5	6.6	11.6	2.5	5.3
Maxima entry zone	27.1	4.6	5.7	2.1	2.8
Blue door plus	(0.1)	7.0	6.7	2.7	2.5
Total	**3.2**	**100.0**	**100.0**	**100.0**	**100.0**

In line with strategic growth objectives, a further 2.5% principal member growth has been budgeted for FY17. Built into the projections is the expected traction of the strategic partnership with Sanlam. However, note is taken of the 1.4% drop in principal members as at 1Q F17, which has likely been driven by the comparatively higher average annual contribution increase implemented for the year (FY17: 13.4% vs. FY16: 10.8%).

Option diversification

Sustained challenges in the economic environment continued to result in member migration towards the scheme's mid-low tier options with high member declines evident on all the top tier options. In terms of member spread among options, 67% of all principal members were housed in four options. Of this, Maxima standard remained the dominant option (34% of total principal members), while strong growth in Maxima entry saver saw its member representation increase sharply to 12% (FY15: 7%).

Membership retention

Table 5: Retention (%)	FY14	FY15	FY16
Membership retention	82%	77%	79%

Member retention levels have been moderate over the past two years, with the retention ratio amounting to 79% in FY16. Over the medium to long-term, the aforementioned partnership with Sanlam may have a positive impact on retention rates, as the scheme aims to enhance its options competitiveness through, amongst others, the Sanlam Reality rewards program offering.

Membership age profile

Table 6: Membership profile	FY14	FY15	FY16
Average age: Principal member (scheme)	49	49	49
Average age: Beneficiaries (scheme)	38	39	39
Average age: Beneficiaries (industry)	33.6	33.8	33.8
Pensioner ratio (scheme) (%)	13.0	14.6	14.6
Pensioner ratio (industry) (%)	8.5	8.2	8.2

The member risk pool exhibits an aged profile, impacting negatively on the scheme's earnings. In this respect, Fedhealth's average member beneficiary age of 39 years registered above that of the open scheme industry average (34 years). This was further exacerbated by a high proportion of pensioners, with the pensioner ratio equating to 14.6% (3Q F16 industry average: 8.2%). Note is taken of the stabilising age profile over the past two years, which does indicate a degree of membership pool renewal. Nonetheless, the scheme's age profile is not expected to improve materially over the rating horizon.

Membership distribution

Table 7: Membership distribution (%)	FY14	FY15	FY16	BY17
Individuals	56.0	59.7	61.0	61.0
Corporate	33.0	30.5	30.8	31.0
Government	11.0	9.8	8.3	8.0

Fedhealth exhibits a fairly consistent membership base, holding a stable market share of just over 3% across the review period (based on principal membership). The member pool is viewed to be well diversified, with individuals representing the majority of members (FY16: 61%), while the corporate segment comprised of 31% of the principal members in FY16. Persal members from government institutions accounted for a lower 8.3% of the principal member risk pool (FY15: 9.8%). This figure is likely to continue to reduce, amidst ongoing migration of Persal members to GEMS.

Over the medium to long term, member representation from the corporate segment may increase as the scheme makes headway with its strategic growth objective, which emphasises the corporate sector as a primary driver of longer term growth.

Member concentration

Concentration exposure within the corporate segment is viewed to be limited, with the largest employer group and the ten largest combined accounting for 2% and 9% of total principal members respectively. Similarly, intermediary concentration is viewed to be well contained, with the single largest broker representing 7% of the member risk pool (three largest combined: 14%).

Earnings capacity

A five-year summary of the scheme's financial performance is shown at the back of this report. The scheme's financial results for FY16 were audited by KPMG, with unqualified audit opinions issued with respect to all periods under review.

Contributions

Gross premium income advanced by a higher 6.9% to R3.1bn in FY16 on the back of the 3.2% growth in principal members and a 10.8% average annual contribution rate increase implemented for the year. Following a particularly severe claims experience in FY16, a higher 13.4% average annual contribution rate increase was effected for FY17, which is expected to facilitate a 10% increase in GPI to R3.4bn over the corresponding period.

Table 8: Premium contributions (R'm)	FY16		FY17
	Actual	Budget	YTD*
Gross premium income	**3,114.1**	**3,100.9**	**858.0**
Member savings	(237.9)	(238.0)	(105.5)
Net premium income	**2,876.3**	**2,862.9**	**752.5**
Key ratios (%)			
GPI growth**	6.9	6.4	10.2
Member saving / GPI	7.6	7.7	12.3

*Management accounts to March 2017.
**Annualised for YTD.

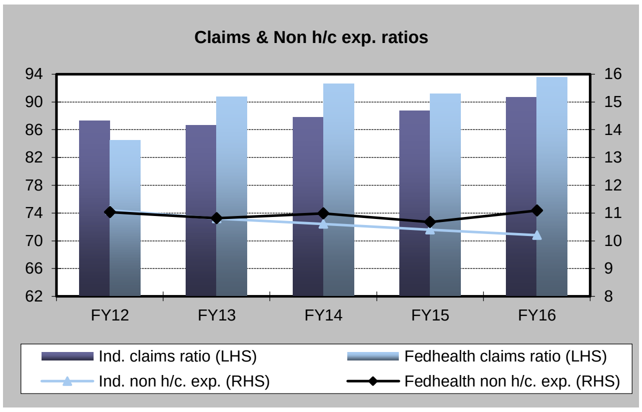
Claims experience

Table 9: Performance by option	Claims/NPI (%)		Net healthcare result (R'm)	
	FY15	FY16	FY15	FY16
Ultimax	82.6	86.1	4.8	3.4
Ultima 200	96.7	99.0	(10.4)	(13.8)
Maxima plus	105.1	102.4	(16.5)	(11.7)
Maxima exec	120.6	123.3	(97.6)	(109.6)
Maxima standard	85.9	91.9	37.8	(34.8)
Maxima standard net	86.5	85.3	0.6	0.1
Maxima basis	84.0	80.1	10.8	13.9
Maxima core	90.7	90.5	(16.3)	(15.9)
Maxima saver	69.1	84.2	8.2	(1.8)
Maxima entry saver	68.9	79.5	5.9	(3.7)
Maxima entry zone	68.4	63.1	10.2	17.7
Blue door plus	90.9	88.6	(5.3)	(3.7)
Total	**91.2**	**93.5**	**(67.8)**	**(159.8)**

Fedhealth's earnings are viewed to be pressured, with atypically high claims in 1H FY16 (experienced across the industry) in particular limiting the scheme's earnings headroom. In this regard, total claims increased by 7% to R2.7bn in FY16. The elevated claims experience drove the claims ratio to a review period high of 93.5% (prior three year average: 91%), contributing to an overall net deficit of R57m (budget: R2.2m net surplus). The 2.4% uptick in the claims ratio mirrored the result observed across the industry, with the average open scheme industry claims ratio rising to 90.7% at 3Q F16 (FY15: 88.7%).

Claims pressure continues to stem from the scheme's aged member profile coupled with increased benefit utilisation and higher prevalence of non-communicable diseases. In response, management effected a higher average annual contribution rate increase, and implemented corrective measures targeting claims containment. These are aimed at alleviating claims ratio pressure in FY17, and consequently maintaining solvency within management's target range. However, GCR takes note of the potential for continued soft to negative net results to result in a sustained moderation in solvency strength, negatively impacting on the scheme's credit profile.

On a per option basis, the top tier options (Ultima 200, Maxima plus and Maxima exec) evidenced fairly elevated claims ratios. These options have historically housed the scheme's older members, and as such, are expected to continue to run at high claims ratios going forward. Maxima standard was adversely impacted by buying down of aged members. In this regard, the pensioner ratio of the option increased notably to 37.6% in FY16 from 8.9% previously. Accordingly, there was a 6% rise in its claims ratio in FY16. Management also noted that the increase in the claims ratio on Maxima saver and Maxima entry saver were, in part, driven by member buy downs, with most members being able to add some form of gap cover at a lower cost to supplement reduced benefits on the lower tier options.



Total non-healthcare expenditure

Non healthcare expenditure has consistently registered above the industry average over the past three years, compounding an already high claims experience. The total non-healthcare expenditure ratio registered at a slightly higher 11% in FY16 as the scheme incurred a R6.7m cost for the purchase of a risk management system (which forms part of the scheme's claims containment measures). This drove up the operating cost ratio to 2.6% (FY15: 2.3%). Going forward, the current operating model is viewed to provide limited scope for potential margin improvement on the non-healthcare expense line, with the non-healthcare expenditure ratio likely to trend above the industry average over the medium term.

Net healthcare result

Table 10: Income statement (R'm)	FY16		FY17
	Actual	Budget	YTD*
Net premium income	**2,876.3**	**2,862.9**	**752.5**
Claims paid**	(2,690.6)	(2,599.2)	(623.7)
Gross U/w surplus	**185.7**	**263.7**	**128.7**
Non-healthcare expenses	(345.5)	(346.2)	(88.0)
Net healthcare result	**(159.8)**	**(82.5)**	**40.8**
Investment & other income	102.6	84.7	15.6
Net result	**(57.2)**	**2.2**	**56.4**
Principal members	73,480	74,215	72,461
Accumulated funds	981.6	1,040.9	1,037.9
Key ratios (%)			
Claims ratio	93.5	90.8	82.9
Non h/c expenses / GPI	11.1	11.2	10.3
Net healthcare result : NPI	(5.6)	(2.9)	5.4
Net result : NPI	(2.0)	0.1	7.5

*Management accounts to March 2017.
**Includes managed care fees.

Over the past four years, Fedhealth has sought to utilise excess reserves as a means of providing affordability relief to members. As such, net healthcare results have been depressed, with the scheme reporting a cumulative net healthcare deficit of R393m over the corresponding period. The particularly severe claims experience in FY16, coupled with added upward pressure from non-healthcare expenses pushed the net healthcare result into a deep deficit (FY16: -R160m). This translated into a negative net healthcare margin of 6% (Four year average: -3.6%).

From an options perspective, the impact of higher claiming patterns reverberated across the option spectrum, with eight out of the twelve options registering net healthcare deficits in FY16 (FY15: five options with net healthcare deficits). In this regard, Maxima exec registered the deepest net healthcare deficit at a higher R107m in FY16 (FY15: -R98m). There was also a reversal in the net healthcare result of Maxima standard, which went from a R38m surplus in FY15 to a R35m deficit in FY16. Although there was some performance improvement in Maxima basis and Maxima entry zone, minimal cross subsidisation was evident within the option mix.

Net result

Overall, investment income increased to R101m in FY16 (FY15: R78m), translating into a higher investment yield of 10% (FY15: 7%). Nonetheless, the extent of this improvement was insufficient to counter the decline in the net healthcare result. Accordingly, a net deficit of R57m was reported in FY16, corresponding to a -2% net margin.

Asset management

Investment strategy

In line with prior years, Fedhealth continues to adopt a balanced investment approach aimed at ensuring adequate liquidity within a reasonably assumed degree of asset exposure. The scheme also utilises an external investment consultant (Simeka Investment Consultants), to assist with monitoring and reviewing asset manager skill and performance. The investment portfolio is spread between four asset managers, and funds are managed according to appropriate mandates.

Liquidity

Table 11: Investment portfolio	FYE15		FYE16	
	R'm	%	R'm	%
Med scheme cash balances	142.0	11.7	83.7	7.5
Money market instruments	296.8	24.4	256.2	22.9
Pers. med. sav. cash balances	180.5	14.8	175.2	15.7
Cash & equivalents	**619.3**	**50.8**	**515.2**	**46.1**
Fixed interest bonds	232.0	19.0	257.7	23.1
Listed equities	312.7	25.7	284.7	25.5
Investment property funds	51.7	4.2	54.4	4.9
Other investments*	3.1	0.3	4.7	0.4
Other investments	**599.5**	**49.2**	**601.5**	**53.9**
Total investments	**1,218.8**	**100.0**	**1,116.7**	**100.0**

* Includes listed & unlisted debentures, as well as unlisted equities.

Liquidity is viewed to be adequate, with the highly tradable nature of invested assets partly offsetting reduced cash coverage metrics. In terms of the latter, negative earnings, coupled with cash flow strain in FY16 saw a 17% reduction of year end cash balances, with the net cash coverage ratio lowering to 1.5 months (FY15: 2 months). A stable investment strategy is expected to uphold adequate levels of liquidity over the medium term, subject to stabilisation in the earnings profile.

Non cash investments

Non cash investments are predominantly placed in bonds (FY16: R258m) and listed equity (FY16: R285m). Combined, these asset classes represented 49% of total investments at FY16 (FY15: 45%). Investment property funds accounted for a fairly stable 5% of the investment portfolio, with the remainder being allocated to debentures and unlisted equity (at 0.4%).

Reserves and solvency

Reserves

Over the past three years, reserves have gradually declined, amidst strained earnings capacity. The three year CAGR of accumulated funds equated to negative 2%. As such, accumulated funds ended the year on a lower R982m. Accordingly, accumulated funds per principal member reduced to R13,358 at FY16 (FY15: R14,583), albeit continuing to track above the industry average (3Q F16: R11,370). Coverage of accumulated funds over average monthly claims lowered to 4.4x in FY16 (FY15: 5.0x), converging towards the industry average (3Q F16: 4.2x).

Solvency

Table 12: Solvency (R'm)	FY16		FY17
	Actual	Budget	YTD*
Net result	(57.2)	2.2	56.4
Accumulated funds	981.6	1,040.9	1,037.9
Key ratios (%)			
Net result : NPI	(2.0)	0.1	7.5
Statutory solvency**	31.5	33.6	30.2

*Management accounts to March 2017.
** Annualised for YTD.

Fedhealth's solvency strength moderated in FY16, on the back of the weakening in earnings. In this regard, accumulated funds reduced by 5% to end the year at R982m, with the statutory solvency margin lowering to 32% (FY15: 36%), below the projected 34%. Management is targeting a minimum statutory solvency range of 28% to 32%, with the improvement in earnings capacity budgeted to preserve solvency at the lower end of this band. However, GCR views a lowering in solvency to reflect a likely reduction in the scheme's overall credit strength.

Fedhealth Medical Scheme

(Rand in millions except as noted)

Year ended : 31 December		2012	2013	2014	2015	2016
Income Statement						
Gross premium income		2,529.5	2,621.1	2,760.7	2,913.6	3,114.1
Members' savings contributions		(147.1)	(147.0)	(153.4)	(163.3)	(237.9)
Net premium income		**2,382.5**	**2,474.1**	**2,607.3**	**2,750.3**	**2,876.3**
Claims paid		(2,012.2)	(2,245.4)	(2,414.2)	(2,507.1)	(2,690.6)
Gross underwriting surplus / (deficit)		**370.2**	**228.7**	**193.1**	**241.9**	**185.7**
Administration fees		(184.5)	(188.6)	(197.7)	(198.9)	(213.0)
Acquisition costs		(44.3)	(43.9)	(44.6)	(45.9)	(50.7)
Other management expenses		(50.1)	(51.1)	(61.0)	(64.9)	(81.8)
Net healthcare result		**91.3**	**(54.9)**	**(110.2)**	**(67.8)**	**(159.8)**
Investment income		59.0	72.5	85.3	78.3	101.4
Other income / (expenses)		1.7	0.8	0.4	0.1	1.3
Net surplus / (deficit) for the year		**152.0**	**18.5**	**(24.5)**	**10.6**	**(57.2)**
Unrealised investment movements		**31.8**	**(2.2)**	**(7.1)**	**(16.1)**	**(48.4)**
Balance Sheet						
Members' surplus		**1,120.7**	**1,136.9**	**1,105.2**	**1,099.7**	**994.1**
Accumulated funds		1,034.2	1,052.6	1,028.1	1,038.7	981.6
Revaluation reserve		86.5	84.3	77.1	61.0	12.6
Members' savings accounts		249.2	226.7	217.3	187.5	186.0
Provision for claims		78.4	91.8	75.5	91.5	113.1
Other liabilities		28.4	27.9	14.3	22.2	28.0
Total Surplus & Liabilities		**1,476.8**	**1,483.3**	**1,412.3**	**1,401.0**	**1,321.2**
Cash & cash equivalents*		774.3	659.3	611.4	619.3	515.2
Other investments		552.8	664.4	630.5	599.5	601.5
Debtors & prepayments		149.7	159.7	170.4	182.1	204.5
Total Assets		**1,476.8**	**1,483.3**	**1,412.3**	**1,401.0**	**1,321.2**
Cash Flow Statement						
Cash generated by operating activities		63.6	(69.8)	(131.9)	(74.2)	(131.2)
Investment income		56.6	46.2	55.1	54.2	60.3
Working capital requirements		(1.9)	(117.8)	(36.8)	(4.9)	(16.5)
Cash flow from operating activities		**118.3**	**(141.4)**	**(113.5)**	**(24.9)**	**(87.4)**
Cash flow from investing activities		24.3	48.9	75.0	32.9	(16.8)
Cash flow from financing activities		28.2	(22.5)	(9.4)	0.0	0.0
Net cash inflow / (outflow)		**170.8**	**(115.0)**	**(47.9)**	**8.0**	**(104.1)**
Key Ratios						
Solvency and Liquidity						
Accumulated funds : Net premium income	%	43.4	42.5	39.4	37.8	34.1
Members' surplus : Net premium income	%	47.0	46.0	42.4	40.0	34.6
Financial base : Net premium income	%	50.3	49.7	45.3	43.3	38.5
Statutory funding ratio	%	40.9	40.2	37.2	35.7	31.5
Net cash coverage ratio	months	3.1	2.3	2.0	2.1	1.5
Gross cash coverage ratio	months	4.6	3.5	3.0	3.0	2.3
Membership Statistics						
Principal members at year-end		72,945	73,389	74,514	71,228	73,480
Principal membership growth	%	1.2	0.6	1.5	(4.4)	3.2
Beneficiaries at year-end		148,816	147,538	148,345	142,882	146,327
Underwriting and Efficiency						
Claims incurred : Net premium income	%	84.5	90.8	92.6	91.2	93.5
Administration fees : Gross premium income	%	7.3	7.2	7.2	6.8	6.8
Acquisition costs : Gross premium income	%	1.8	1.7	1.6	1.6	1.6
Operating costs: Gross premium income	%	2.0	1.9	2.2	2.3	2.6
Non healthcare expenses : Gross premium income	%	11.0	10.8	11.0	10.6	11.1
Net healthcare result : Net premium income	%	3.8	(2.2)	(4.2)	(2.5)	(5.6)
Net result: net premium income	%	6.4	0.7	(0.9)	0.4	(2.0)
Gross avg investment yield (excl. unrealised movements)	%	4.8	5.5	6.6	6.4	9.8
Net avg investment yield (excl. unrealised movements)*	%	7.1	7.8	9.1	8.7	10.3

* Includes PMSA balances.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Beneficiary	Nominated person or institution in the policy document that is entitled to receive the proceeds stated in the policy.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
Rating Horizon	The rating outlook period
Rating Outlook	A rating outlook indicates the potential direction of a rated entity’s rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Statutory Solvency Margin	Gives an indication as to whether the minimum regulatory solvency margin is being met, based on the net statutory assets to statutory net premiums ratio.

For a detailed glossary of terms please click here

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Fedhealth participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating has been disclosed to Fedhealth with no contestation of the rating.

The information received from Fedhealth and other reliable third parties to accord the credit rating included:

- The audited financial statements to 31 December 2016
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2017
- Year to date management accounts to March 2017
- Other relevant documents

The rating above was solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the rating.