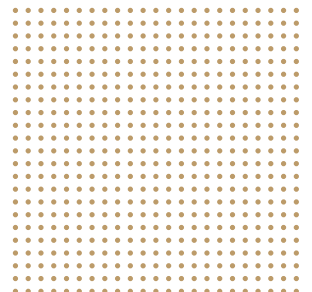




For the benefit of our  
**members**

2016 Integrated Annual Report





# 2016

## Integrated Annual Report

Discovery Health Medical Scheme's Integrated Annual Report is designed to cater for various readers by grouping information in a logical way according to different levels and areas of interest. The chapters in the Report can be read as standalone pieces for this purpose. Below we describe what is in each chapter and its intended audience.

### About our Report

Inside  
flap

Sets out the assurances provided for this Report and its purpose, scope and boundary, and the Board's statement of responsibility.

### Performance Highlights

02

For readers who want a quick view of key performance trends and 2016 highlights. Detailed performance information can be found in the Performance chapter.

### About DHMS

04

For current and potential members, this chapter provides an overview of the Scheme, who leads and governs it and how it achieves its objectives.

This section also discusses how each of the Scheme's key stakeholders obtain value from the Scheme, within the context of the Scheme's primary responsibility to create value for its members. It may therefore be of interest to healthcare providers and other stakeholders of the Scheme.

### Governance

36

For our regulators and other readers who are interested in the details of the Scheme's governance, this chapter provides an overview from the Chairperson and a description of the legislation governing the Scheme and its governance structures and framework, including the Board of Trustees and Board Committees. It also reviews notable regulatory and industry matters dealt with during 2016.

### Performance

62

For members and regulators who are interested in more about the performance of the Scheme during 2016, this chapter provides management commentary on the Scheme's strategic, operating and financial performance during 2016. It also includes a review of initiatives undertaken by Discovery Health on behalf of the Scheme and its members.

### Financials

82

Full Annual Financial Statements and notes to the Financial Statements.

### Information Toolkit

154

A quick reference guide for contact information, feedback, compliments and complaints processes and guidance on where to find additional information.

### Glossary

Unfamiliar terms in the Report?  
Find definitions in our Glossary.

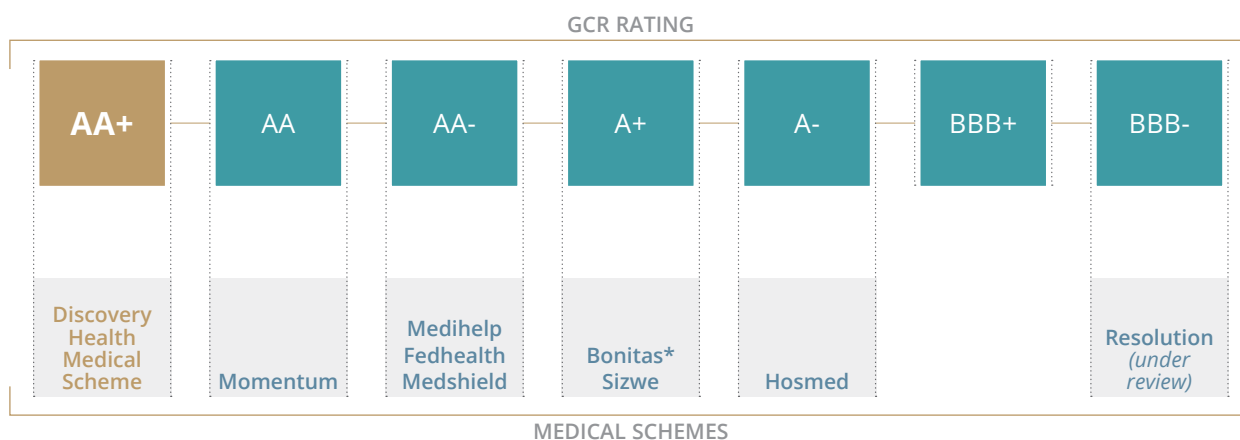
# 02 Performance Highlights

## Overview

Discovery Health Medical Scheme delivered a positive net healthcare result of R102 million for the year ended 31 December 2016 (2015: R507 million). The year-on-year decrease in the operating result was mainly attributable to medical inflation and increased utilisation of benefits. Despite difficult investment markets, the Scheme generated healthy investment income of R1 257 million (2015: 1 019 million) contributing to the net surplus for the year of R1 305 million (2015: R1 276 million).

This solid financial performance increased members' funds to R14.2 billion (2015: R12.9 billion) with a solvency level of 26.33% (2015: 25.98%). The Scheme's financial strength and ability to pay claims was once again confirmed with a credit rating of AA+, the highest possible rating in the industry, from independent credit rating agency, Global Credit Rating Co (GCR).

## DHMS maintains AA+ credit rating



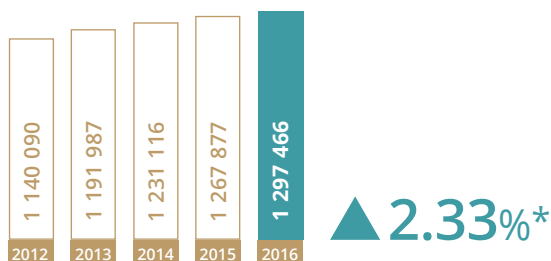
\* Withdrawn in 2017.



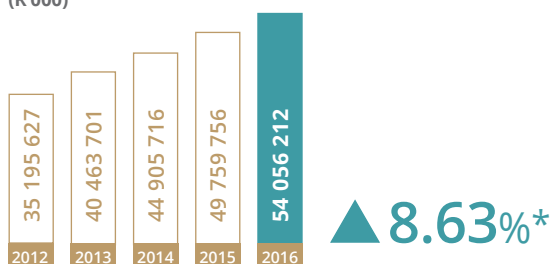
## KEY HISTORICAL PERFORMANCE INDICATORS

The Scheme continues to build on its excellent historical performance, evidenced by the increase over the last five years in our principal members, Scheme lives, gross contributions and members' funds.

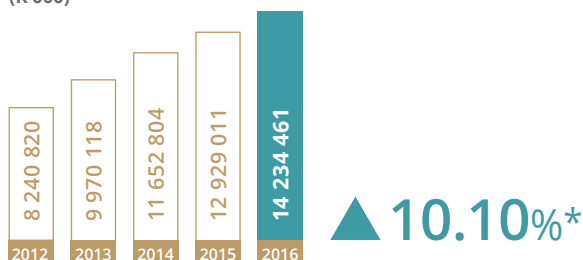
### Increase in Scheme principal members



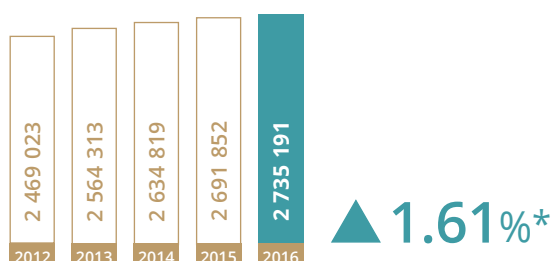
### Increase in gross contributions (R'000)



### Growth in members' funds (R'000)



### Increase in Scheme lives



\* Year-on-year change.

## KEY INDICATORS FROM 2016

# AA+

Independent credit rating for claims-paying ability  
(2015: AA+)

# 26.33%

Statutory solvency level  
(2015: 25.98%)

# 55%

Share of open scheme market  
(2015: 53%)

# 5%

Annualised lapse rate  
(2015: 5%)

# 2.45%

Average growth in principal members  
(2015: 3.24%)

# 2.11

Average family size  
(2015: 2.12)

# 2.60%

Managed care as % of gross contributions  
(2015: 2.62%)

# 7.68%

Admin fees as % of gross contributions  
(2015: 7.79%)

# 8.79%

Average return on investments  
(2015: 6.01%)

# 8.92%

Pensioner ratio  
(2015: 8.55%)

# 34.17

Average age at year end  
(2015: 33.86)

For further detail on the Scheme's performance, please see [pages 64 – 73](#).