

**CREDIT RATING ANNOUNCEMENT****GCR affirms Bankmed's rating of AA+(ZA); Outlook Stable.**

Johannesburg, 25 May 2017 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Bankmed of AA+(ZA), with the rating outlook accorded as Stable.

**SUMMARY RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above credit rating to Bankmed based on the following key criteria:

Bankmed's solvency remains very strong, representing a key rating input. The statutory solvency margin registered at a very high 40% at FY16, with reserve levels viewed to be well managed. In this respect, the gradual reduction of reserves over the past three years has resulted in the statutory solvency margin converging towards management's internal target range. Solvency is expected to remain a key rating strength over the medium term, with the statutory solvency margin expected to trend within a very strong range.

Bankmed's liquidity is viewed to be healthy. Strong cash flow generation and asset rebalancing resulted in a 40% increase in cash and equivalents at FY16. Accordingly, cash and equivalents represented a higher 58% of the total investment portfolio (FY15: 45%), with the net claims cash coverage ratio improving to 3 months at FY16 (FY15: 2 months), albeit still registering below historically high levels (FY13: 4.5 months). Although liquidity metrics may evidence some variability over the medium term, in part due to flexibility in the investment strategy (a function of very high solvency levels), liquidity is expected to remain sound, supported by the large and tradable nature of the investment portfolio.

Bankmed's earnings is viewed to be well controlled. In this respect, the initial solvency run down phase has been managed largely in line with projections, illustrating a high degree of strategic control, with GCR viewing the potential for material earnings volatility to be limited. This notwithstanding, management's intention to improve earnings to a sustainable level to support its reserving strategy, represents a source of partial execution risk.

In view of the above, earnings capacity has been fairly limited over the past three years, with a consistently elevated claims ratio above 96% contributing to large net healthcare deficits. Accordingly, the net margin has averaged 0.6% over the corresponding period, leading to limited reserve accumulation (three year CAGR of accumulated funds: 1.3%). The net margin is budgeted to improve to 2% in FY17, with some cost savings expected to filter through on lower non healthcare costs.

The membership base impacts positively on the rating, underpinned by the scheme's fairly large and captive membership pool, which exhibits high member retention rates. Of late, there has been some fluctuation in membership levels, with a 1% decline in principal members in FY16, following a 7.5% spike in FY15. These were driven by atypical events, with stable membership levels expected over the rating horizon. The scheme continues to reflect a favourable age profile, with the average age of principal members and beneficiaries amounting to 42 years and 31 years respectively at FY16. The age profile of the scheme is anticipated to remain favourable over the rating horizon. The high concentration of membership to the banking and financial services industry exposes the scheme to systemic risks inherent in the sector. Furthermore, the scheme's membership base exhibits concentration risk, given the high membership weighting derived from three employer pools.

In consideration of prevailing characteristics in the South African medical schemes arena, the industry rating ceiling remains capped at AA+(ZA). In the absence of a revision thereof, an upward adjustment of the scheme's rating (which constitutes the highest rating an open or closed medical scheme currently can be accorded by GCR) is considered unlikely over the short to medium term. Downward pressure on the rating may result from statutory solvency lowering to a level below management's targeted range on a sustained basis. Furthermore, substantial net deficits, the ontake of high market risk, or reductions in liquidity, sustained over the medium term, could also have a negative impact on the rating.

**NATIONAL SCALE RATINGS HISTORY**

Initial rating (October 2000)  
Claims paying ability: AA<sup>-</sup>(ZA)  
Outlook: Stable

Last rating (May 2016)  
Claims paying ability: AA<sup>+</sup>(ZA)  
Outlook: Stable

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Medical Schemes, updated July 2016  
Bankmed rating reports, 2000-2016

**RATING LIMITATIONS AND DISCLAIMERS**

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**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.

Bankmed 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 Bankmed with no contestation of the rating.

The information received from Bankmed 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
- 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.

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

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.
Coverage	The scope of the protection provided under a contract of insurance.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
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.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Rating Horizon	The rating outlook period
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.
Retention	The net amount of risk the ceding company keeps for its own account.
Retention Rate	The net amount of risk the ceding company keeps for its own account as a percentage of GWP.
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.
Systemic Risk	The risk inherent to the entire market or an entire market segment.

For a detailed glossary of terms please click [here](#)



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