



GCR affirms Bonitas Medical Fund's rating of AA-(ZA); outlook Stable

Johannesburg, 27 Aug 2013 — Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Bonitas Medical Fund of AA-(ZA); with the outlook accorded as Stable.

RATING RATIONALE

Global Credit Ratings has accorded the above credit rating(s) on Bonitas Medical Fund (“Bonitas”) based on the following key criteria:

The placement of Bonitas under curatorship (as of May 2011), and subsequent successful emergence therefrom (in August 2012) is positively considered, as it has served to strengthen the governance and transparency of the scheme, contributing towards focus being placed solely on the core operating mandate.

The merger with Pro Sano (effective 1 January 2013) enhances Bonitas’ market position. In this regard, the scheme’s status as the second largest entity in the open medical schemes has been cemented. The growth has also assisted the scheme in maintaining a favourable membership age profile. This notwithstanding, note is taken of the complexity of accurately pricing and managing the different membership profiles. The bedding down of the new risk pool in order to maintain the scheme’s internal risk management benchmarks represents a key measure of management’s strategic implementation capacity in the short term.

The scheme has shown a demonstrated ability to post robust net surpluses over the last nine years (barring F09), coupled with the fact that it continues to register comfortable solvency ratios. This trend is expected to continue in F13, although note is taken of the potential convergence of the statutory solvency margin with the scheme’s internal minimum level in the upcoming year. Liquidity ratios are adequate, and the exposure of the members’ surplus to risk assets is viewed as relatively well managed. The low delivery cost ratio remains highly competitive, although the scheme is expected to continue experiencing high Persal member attrition going forward.

Positive rating action going forward may emanate from the consistent generation of robust net surpluses (driven by the scheme’s focus on underwriting discipline) and maintenance of strong solvency ratios. The scheme’s financial metrics should also continue to measure favourably against its peers. However, a sustained adverse net performance, due to significant claims or investment losses, which could cause the level of capitalisation to decline materially, may have a negative impact on the rating. Further, government’s longer-term objective to introduce an NHI framework in South Africa, to which the associated effect on the medical schemes industry remains uncertain, could negatively impact the rating.

NATIONAL SCALE RATINGS HISTORY	
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Initial rating (Aug/2002)

Claims paying ability: A_(ZA)

Outlook: Rating watch

Last rating (May/2012)

Claims paying ability: AA_(ZA)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for Rating Medical Schemes



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

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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.

Bonitas Medical Fund 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/s has been disclosed to Bonitas Medical Fund with no contestation of the rating.

The information received from Bonitas Medical Fund and other reliable third parties to accord the credit rating included the latest available audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements, most recent year-to-date management accounts, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.

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