



## GCR affirms Liberty Medical Scheme's rating of AA-(ZA); Rating Watch.

Johannesburg, 8 Aug 2013 — Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Liberty Medical Scheme of AA-(ZA); with the rating placed on Rating Watch. The rating is valid until 12/2013.

### **RATING RATIONALE**

Global Credit Ratings has accorded the above credit rating on Liberty Medical Scheme based on the following key criteria:

Liberty Health Medical Scheme was established in January 2002. On 1 January 2010, the scheme amalgamated with Medicover Medical Scheme ("Medicover") and re-branded as LMS. The scheme has integral linkages to the greater Liberty Group, assisting the scheme in the procurement of new members through its extensive tied-agent network.

Capital reserves and solvency measures continued to register at comfortable levels at FYE12. On a standalone basis, however, LMS's statutory solvency is projected to fall below the minimum regulatory requirement of 25% in F13, owing to the expectation of a further sizeable net deficit. This notwithstanding, capital and key solvency metrics could come in higher should fairly advanced amalgamation opportunities materialise. In this regard, GCR has placed Liberty Medical Scheme's rating on Rating Watch while we continue to monitor developments.

Other factors considered in according the rating include the schemes adoption of a more conservative investment stance during F12, which served to underpin enhanced liquidity measures. The investment strategy is not expected to change significantly over the short term. While LMS is one of the larger participants in the open medical schemes industry, note is taken of persistent membership losses in recent years. This has culminated in a comparatively aged risk pool that exceeds the industry mean. Note is, however, taken of the recently restructured marketing and distribution strategy (partly rendered via the Liberty Group), targeted at a younger member profile, which is expected to provide a suitable platform for future growth. Further, the scheme continues to assess potential merger opportunities in order to attain future growth. An offsetting factor to the rating relates to the volatile operating performance displayed over the review period, which has generally been characterised by net deficits. As such, the accurate pricing of products and benefit design is deemed crucial.

In context of the persistent net healthcare deficits posted over recent years, an upgrade of the rating is considered unlikely in the medium term. Should the proposed merger with Spectramed not materialise, leading to a weakening in the statutory solvency below the regulatory minimum as budgeted, this could have negative ramifications for the rating. Furthermore, 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.

<b>NATIONAL SCALE RATINGS HISTORY</b>	
Initial rating (Jun/2004)	
Claims paying ability: A <sub>(ZA)</sub>	
Outlook: Stable	
Last rating (Apr/2012)	
Claims paying ability: AA <sub>-(ZA)</sub>	
Outlook: Stable	
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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**



## GCR's Criteria for Rating South African 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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Liberty Medical Scheme 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 Liberty Medical Scheme with no contestation of the rating.

The information received from Liberty Medical Scheme and other reliable third parties to accord the credit rating included 2012 audited 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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