



GCR affirms Sizwe’s national scale financial strength rating of A+_(ZA) after court dismissal of curatorship application and approved amalgamation with Hosmed; Stable Outlook

Rating action

Johannesburg, 22 April 2021 - GCR Ratings (“GCR”) has affirmed Sizwe Medical Fund’s (“Sizwe”) national scale financial strength rating of A+_(ZA), with the Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook/Watch
Sizwe Medical Fund	Financial strength	National	A+ _(ZA)	Stable Outlook

Rating rationale

Sizwe’s national scale financial strength rating balances the scheme’s moderately strong financial profile and modest membership profile, despite a 3% membership growth. The rating factors in the court dismissal of the regulator’s application to place the scheme under curatorship, while noting that the recently approved amalgamation with Hosmed Medical Scheme (“Hosmed”) is likely to consolidate Sizwe’s market position as the seventh largest open scheme in South Africa. Therefore, GCR expects the scheme’s membership profile to improve over the next 12 months, albeit with positive impact on the overall credit profile limited by potential moderation in financial profile due to ongoing strategic reserves utilisation.

Earnings capacity was maintained within an intermediate range, evidenced by stable five-year average net healthcare margin and net margin of -3% and 1% respectively, despite benefitting from margins of 3% and 5% respectively registered in FY20. Earning potential was notably restrained by a 65% contraction in investment income, which limited the impact of a low net claims ratio of 86% in FY20 (FY19: 100%; FY18: 98%) resulting from movement restrictions to contain the pandemic. Consequently, capitalisation remained moderately strong, with a GCR capital adequacy ratio (“CAR”) stable around 1.7x, while the statutory solvency margin modestly increased to 39% (FY19: 37%). Liquidity also remained within a similar range, although lower operational cash requirements supported cash and stressed financial assets coverage of average monthly claims and operational cash coverage at 4.7 months and 1.0x respectively (FY19: 4.2 months and 0.9x respectively). While buffers accumulated in FY20 are viewed limited to compensate for reserve utilisations of the previous two years, no material impact is expected from the amalgamation with Hosmed, given relatively similar earning performance, solvency levels and liquidity profile. However, management plans to pursue strategic reserves utilisation, which may result in further moderation of the scheme’s financial profile compared to historical levels. Therefore, the ability to stabilise Sizwe’s financial profile within rating sufficient levels represents a key consideration going forward.

The membership profile assessment also remained relatively similar. The scheme retained a 2% share of the open schemes industry, despite aggressive marketing initiative underpinning a 3% membership growth, and progressively dilution of corporate exposures in the midst of accrued economic challenges limiting individuals purchasing power. Nevertheless, the scheme membership profile is expected to improve after the amalgamation with Hosmed, which is likely to increase market share and membership diversification, while consolidating beneficiary age and pensioner ratio below open industry average of 35 years and 10%. Management and governance is viewed to be neutral, following the court dismissal of the regulator’s application to place the scheme under curatorship and the recent approval of the amalgamation with Hosmed.

Outlook statement

The Stable Outlook is premised on the potential for ongoing strategic reserves utilisation to restrain earnings potential, which may in turn limit solvency and liquidity assessments. As such, the expected gradual moderation in Sizwe’s financial profile is likely to balance membership profile strengths garnered after merger with Hosmed.

Rating triggers

Positive rating movement may follow sustained longer-term earnings performance, leading to improved capitalisation and liquidity. Conversely, earnings reduction resulting in solvency and liquidity moderation beyond expectation is likely to trigger further downward rating movement.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Insurance Companies, May 2019

GCR Ratings Scales, Symbols & Definitions, May 2019

GCR Country Risk Scores, March 2021

GCR South Africa Medical Scheme Sector Risk Score, July 2020

Rating history

Sizwe Medical Fund

Rating class	Review	Rating scale	Rating class	Outlook/Watch	Date
Claims paying ability	Initial	National	A+ _(ZA)	Stable	July 2015
Financial strength	Last	National	A+ _(ZA)	Stable	September 2020

Risk score summary

Rating components & factors	Risk scores
Operating environment	14.75
Country risk score	7.00
Sector risk score	7.75
Business profile	(1.50)
Membership profile	(1.50)
Management and governance	0.00
Financial profile	1.25
Earnings	(0.25)
Capitalisation	1.00
Liquidity	0.50
Comparative profile	0.00
Peer analysis	0.00

Total score	14.50
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Glossary

Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Rating Watch	See GCR Rating Scales, Symbols and Definitions.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
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.
Reserves	A portion of funds allocated for an eventuality.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Settlement	Full repayment of an obligation.
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.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating is based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating is an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to the rated party. The rating was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

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



Unaudited management accounts to 31 December 2020;
Four years of comparative audited financial statements to 31 December;
Full year budgeted financial statements to 31 December 2021;
Other relevant documents