GCR Lowers the South African Medical Schemes Sector Risk Score

Summary

Johannesburg, 14 July 2020: GCR Ratings ("GCR") has lowered the South African Medical Schemes Sector Risk Score from 8 to 7.75 on expected industry growth potential moderation.

The South African Medical Schemes Sector Risk Score is available for download at gcrratings.com/risk-scores and relevant sector research pieces are available at: http://gcrresearch.com/reports/house/industry-reports/.

The GCR South African Medical Schemes Sector Risk Assessment

The Medical Schemes sector risk score (ranging from 0 to 15) is a key factor in the operating environment component. The core of the GCR Ratings Framework is based on GCR's opinion that an entity's operating environment largely frames its creditworthiness. As a result, the operating environment analysis anchors risk scores under the GCR rating methodology. GCR combines elements of the country risk and sectoral risk analysis to anchor a medical scheme to its current operating conditions. For more details on any of the above, please read the related criteria and research listed below.

GCR will periodically publish an updated "GCR South African Medical Schemes Sector Risk Score", which will supersede previous publications. The publication titled "GCR South African Medical Schemes, 14 July 2020", supersedes the article published on 18 September 2019.

South African Medical Schemes Sector Risk Score

South Africa Medical Schemes, Sector Risk Score 7.75. Country Risk Score 7.0*, Mapping Table 7.0 to 7.50

The South Africa medical schemes sector risk score of '7.75' reflects the expected moderation in real industry contribution growth, due to the adverse income effect of ongoing economic challenges, exacerbated by COVID-19 pandemic risks. As such, GCR believes that the industry's membership base is likely to lower and policy buy-down increase, while industry density will remain low (below USD250). Nevertheless, the market remains advanced compared with regional peers and is likely to retain a penetration rate of around 4%, supported by the comparatively defensive nature of the product.

Earnings risks are viewed to be low, stabilised by contribution rates increases that are generally in line with medical inflation and contained exposure to market risk. Note is made of the possible elevation in the healthcare expense ratio representing a key assessment area over the medium term. The COVID-19 pandemic is likely to see an increase in hospital admissions over the coming months, although we expect the impact on the overall claims ratio to be offset by lower utilisation of non-essential benefits, at least over the near term. GCR will nevertheless monitor developments, given uncertainty regarding virus transmission rates and levels of bed capacity utilisation (noting possible expansion of available beds outside conventional facilities). Industry solvency will likely be maintained within strong ranges, given expectations of continued reserve accumulation and inherent low product risk. The sector is further supported by a strong regulatory environment, which is adequately adjusting to address industry challenges. Despite ongoing consolidation, the broad industry composition will remain stable, underpinned by high barriers to entry.

*Country Risk score as at date of publication.

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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, May 2020
GCR Financial Institutions Risk Scores, June 2020