GCR RATINGS

GCR Maintains the South African Medical Schemes Sector Risk Score as the Industry Shows Resilience to COVID-19 Risks

Summary

Johannesburg, 28 April 2021: GCR Ratings ("GCR") has maintained the South African Medical Schemes Sector Risk Score at 7.75 following very low claims experience and strengthened solvency in 2020, which has enhanced resilience to potential earnings risk. However, we still see downside risk to membership levels amidst ongoing economic challenges.

The South African Medical Schemes Sector Risk Score is available for download at Country Risk Scores – GCR (gcrratings.com) 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 Sector Risk Score, 28 April 2021", supersedes the article published on 14 July 2020.

South African Medical Schemes Sector Risk Score

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

The South African medical schemes sector risk score of '7.75' reflects the relative stability in the membership and beneficiary base to date, although we still see downside risk stemming from higher unemployment and low economic growth, limiting industry density 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 defensive nature of the product.

Low utilisation of non-essential benefits offset COVID-19 related hospital admissions resulting in the industry reporting a significant net surplus in 2020, and positive performance is likely to have been sustained to date. This has supported a material increase in solvency and an aggregate strengthening in the sector's resilience to potential earnings risk. We expect that solvency levels will remain elevated over the next 12 to 18 months, although will likely reduce over the longer term given a combination of low contribution increases and more normalised claims frequency. The sector is further supported by a strong regulatory environment, which is adequately adjusting to address industry challenges. Despite ongoing consolidations, the broad industry composition is likely to 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, March 2021
GCR Financial Institutions Risk Scores, February 2021