# GCR South African Medical Schemes Sector Risk Score 28 April 2021

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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

## The GCR South African Medical Schemes Risk Assessment

The Medical Schemes sector risk score (ranging from 0 to 15) is a key factor in the operating environment component score. The core of the GCR Ratings Framework is based on GCR Ratings' ("GCR") opinion that an entity's operating environment largely frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score for the GCR rating methodology. GCR combines elements of the country risk and sectoral risk analysis, blended across countries for entities operating across multiple jurisdictions, to anchor an insurer to its current operating conditions.

GCR will periodically publish updated "South African Medical Schemes Sector Risk Score", which will supersede previous publications. This publication, available at gcrratings.com/risk-scores/, supersedes the publication titled "South African Medical Schemes Sector Risk Score", which was 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.