

Performing in a pandemic: Bonitas announces healthy annual results

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Bonitas Medical Fund reported its financial results for 2020, with significantly bolstered reserves of R6.1bn. Luke Woodhouse, chief financial officer of Bonitas says, "The Fund, which has 40 years' experience in the medical aid industry, had 333 141 principal members and total beneficiaries of 710,157 as of 31 December 2020. This accounts for 14% of the open scheme market, representing 8.3% of total market share."

Bonitas ended 2020 with an unprecedented surplus of R1.7bn (2019: R186.1m). The surplus is the largest ever reported by the Fund and is largely attributable to the suppressed utilisation of non-Covid related claims expenditure. "The surplus was also positively impacted by the effective implementation of our strategic pillars, proactive risk management and prudent Board decisions in a unique, but volatile year," says Woodhouse. "Bonitas's medium-term objective is to sustain solvency levels above the statutory minimum of 25% and to make meaningful, strategic decisions about current reserves in the interests of our members. This while facing significant uncertainty, especially in terms of the cost and prolonged impact of Covid-19, non-Covid-19 utilisation and roll-out of vaccines."

2020 performance at a glance:

- R3bn gross healthcare result (2019: R1.3bn)
- Reserves reaching R6.1bn (2019: R4.3bn)
- A net surplus of R1.7bn (2019: R186.1m)
- Solvency ratio of 32.7% (2019: 24.9%)
- R51.7 gross recoveries from Fraud, Waste and Abuse (2019: R41.2m)
- Strategic purchasing yielded hospital negotiation savings of R346m (2019: R370.4m). This is lower than the previous year, in absolute terms, due to lower outflows as a result of Covid-19, including cancellation of elective procedures and a reduction in trauma and major medical related costs
- An investment income of R316.6m (2019: R420.1m) that exceeded CPI
- Net claims decreased by 4.7% to R14.3bn (2019: increased by 8.9% to R15bn)
- Healthcare cost savings initiatives realised savings of R221m - the most significant of these were achieved through the Scriptpharm chronic medicine capitation model
- 83.0 claims loss ratio (%) (2019: 92.3)



Luke Woodhouse, CFO of Bonitas Medical Fund

The Investment Committee was particularly active given the volatility in equity markets and the market crash that occurred in March 2020. The active management and continued strategic asset allocation approach contributed to a turnaround in investment returns, growing the investment portfolio (excluding cash and cash equivalents) from R5.01bn in December 2019 to R7.14bn at the end of December 2020 – delivering an overall return of 4.16%.

Although Covid-19 induced severe capacity constraints in the healthcare system, the hiatus in all other areas of healthcare decelerated a long-term trend towards overuse and medical cost inflation. This occurred against an economic backdrop of market volatility, record low interest rates, rising unemployment and declining incomes. The significant surplus capacity was systemic within the healthcare industry.

Investments and economic growth

In addition to investment volatility, South Africa's sovereign credit rating was downgraded to sub-investment grade status with a negative outlook by the Moody's and Fitch ratings agencies. According to the IMF, South Africa's real GDP contracted by 8% in 2020, but is expected to show 3% growth in 2021, before slowing again.

Claims' expenditure

While some categories such as in-hospital admissions experienced a major decline, with a high number of elective surgeries cancelled, there was a marked increase in medicine claims and costs. Under servicing could, however, lead to higher downstream healthcare costs over the long term. The combination of these factors led to lower claims in an environment where Bonitas actively continued to manage costs, promote Managed Care and supervise investment performance.

As opposed to other years the key cost drivers were Covid-19 related, including:

Hospital admissions, investment in PPE, pathology test costs, home-based care, healthcare support to members in the workplace, medication and deferred elective surgeries.

Hospital negotiations

This year we participated in the first collective negotiation process on hospital tariffs with five other medical schemes administered by Medscheme. This followed the finding by the HMI that collective negotiations would not contravene the Competition Act. The common tariff resulted in a 3.1% saving in 2021 terms and these savings could exceed R200m in 2021.

In addition, hospital costs and medical specialist costs reduced by 5.4% (2019: increased by 8.9%) and 5.3% (2019: increased by 10.0%) respectively on a per-member-per-month basis. Total claims per-member-per-month declined by 8.7% (2019: increased by 8.1%).

Strategic purchasing

Cumulative savings since the start of the strategic partnership arrangement with hospital groups in 2017 was R1.247bn.

Growth and retention

To retain members under significant financial stress due to Covid-19, members received assistance in line with CMS regulations. This had a negligible impact on performance but assisted in retention of members during the worst of the pandemic.

Covid-19 also resulted in a marked increase in queries about joining a medical fund as people realised the need for quality healthcare. We experienced a cumulative net decline in membership of 5,610 members (1.7%) in 2020, which compares well against a significant contraction in GDP and increased unemployment. Despite the challenges experienced in 2020, Bonitas acquired 37 814 new members (2019: 50,680).

Bonitas also kept increases as low as possible without jeopardising the sustainability of the Fund. There was a competitive weighted average contribution increase of 4.6% - 1.61% higher than CPI whereas, under normal circumstances, contribution increases are set at a minimum of CPI +3,5%.

Day hospitals

We identified day hospital use as a viable option to improve efficiency and reduce costs. There is minimal disruption to members, speedier recovery times, less risk of infection.

Home-based care

During Covid-19, home-based care received renewed interest and focus. Not only is it a cost saver but studies have shown that patients recover faster in their comfort of their own homes.

Efficiency Discounted Options (EDOs)

The four EDOS introduced have been a success – the EDOs cover over 74,000 lives and the principal members who join are around 10 years younger than the average Bonitas member.

Members on these plans use network healthcare providers and pay around 15% less for the same benefits.

Virtual care

There was a positive response to the launch of the new Bonitas Member Mobile App and free virtual care for all South Africans during 2020. This provided access to GP consultations for a range of conditions, including Covid-19, as well as free delivery for chronic medicine.

"It has been a difficult year for all industries and we are pleased that Bonitas has adequate reserves to remain sustainable and support our members. We are mindful of economic pressures that will remain the daily reality for South Africans and are committed to building on the ground-breaking shifts in cost management achieved in 2020.

"Our intent remains to provide accessible and affordable healthcare to even more South Africans in 2021. We want to ensure a wider Bonitas family enjoys the peace of mind that comes from being protected by people who care."

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Bonitas



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